Diverging Paths: Youth Debt, College, and Family Background

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Millenials

Variable pathways to adulthood.

Economic squeeze

US system of financed attainment
The transition to adulthood in the 21st century is a transition to debt.

What’s new: unsecured debts.

Youth debt both facilitates and constrains milestones.
Inequality in effects

Effects are largely not at the averages

Effects are not all the time
DIVERGING PATHS

Effects are largely not at averages ➔ Disadvantage

Effects are not all the time ➔ Risk
DIVERGING PATHS

Effects are largely not at averages

Effects are not all the time

Disadvantage

Risk
College

Increasingly shapes youth disadvantage and risk

valuable
diverse
debt financed

CROSSING THE FINISH LINE
Completing College at America’s Public Universities

William G. Bowen | Matthew M. Chingos | Michael S. McPherson
College debt crisis?
My argument:
These mixed effects are a necessary consequence of having a credit system embedded in system of educational attainment.

Open credit system combined with institutional diversity in a college-for-all context.

BUT understand in context of transition to adulthood, not just education.
How does the system of student loans spread risk for young adults?

Debt by Degrees
Student Debt and Financial Precarity
Financial Risk and College in Context

Where and when do the risks concentrate?
Data

Millennial cohort:
National Longitudinal Survey of Youth, 1997 Cohort

Household exposure to loans:
Survey of Consumer Finances

Sources on postsecondary education system:
IPEDS, state policies.
National Longitudinal Survey of Youth 1997 Cohort

Born in 1980s Oldest Millennials

Come of age in the 2000s.

Interviewed every year since 1997 teenagers- late 20s
Survey of Consumer Finances

Household survey

Demography of student loan-holding across life course

Longitudinal study 2007-2009
Debt by Degrees

RISK IN A COLLEGE-FOR-ALL SOCIETY
By Late 20s, 70% of Millennials Enrolled in Some Form of Postsecondary Education

By Late 20s, 70% of Millennials Enrolled in Some Form of Postsecondary Education
Almost Half of those with Some College but No Degree Carry Debt Debt, Both 2-year and 4-year Debt, Only 4-year Debt, Only 2-year No Debt, Both 2-year and 4-year No Debt, Only 4-year No Debt, Only 2-year
Percent of Loans by Years Since Origination
Student Debt Spreads Risk Across Diverse Households

Educational Status of Head among Families with a Member Repaying Student Loans, 2013

Authors’ analysis of *Survey of Consumer Finances* data.
Student Debt Spreads Risk Across Diverse Households

Educational Status of Head among Families with a Member Repaying Student Loans, 2013

Authors’ analysis of Survey of Consumer Finances data.
Student Debt and Financial Risk

YOUTH FINANCIAL PRECARITY
Spreading financial precarity: disadvantage
Exposure to Debt Highest Among 2 Year College Degrees
Both Secured and Unsecured Debts

<table>
<thead>
<tr>
<th>Proportion Holding Debt</th>
<th>Secured Debt</th>
<th>Unsecured Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Degree</td>
<td>.24</td>
<td>.78</td>
</tr>
<tr>
<td>HS/GED</td>
<td>.44</td>
<td>.75</td>
</tr>
<tr>
<td>Associates</td>
<td>.61</td>
<td>.75</td>
</tr>
<tr>
<td>Bachelors</td>
<td>.52</td>
<td>.59</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>.53</td>
<td>.69</td>
</tr>
</tbody>
</table>
Unsecured Debts: From Bad to Worse

![Bar Chart]

- Any Other Debt
- Credit Card Only
- Remaining Only

Proportion Holding Debt

<table>
<thead>
<tr>
<th>Degree Level</th>
<th>Any Other Debt</th>
<th>Credit Card Only</th>
<th>Remaining Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Degree</td>
<td>.37</td>
<td>.13</td>
<td>.28</td>
</tr>
<tr>
<td>HS/GED</td>
<td>.53</td>
<td>.36</td>
<td>.26</td>
</tr>
<tr>
<td>Associates</td>
<td>.54</td>
<td>.49</td>
<td>.19</td>
</tr>
<tr>
<td>Bachelors</td>
<td>.53</td>
<td>.48</td>
<td>.11</td>
</tr>
<tr>
<td>Postgraduate</td>
<td></td>
<td></td>
<td>.089</td>
</tr>
</tbody>
</table>
Debt Precarity Highest for 2 Year Degreed

- Remaining Debt
- Credit Card Debt
- Other Debt
- College Debt
- Unsecured Debt
- Car Debt
- House Debt
- Secured Debt

Legend:
- Postgraduate
- Bachelors
- HS/GED
- No Degree
Spreading financial precarity: risk in uncertain times
Percent of Households with a Member Paying Down Student Loans Experiencing Economic Shocks

Authors’ analysis of *Survey of Consumer Finances* data.
Delinquency Rate by Income Shock

- No Income Shocks: 4%
- Income Shock: 10%

The graph shows a higher delinquency rate for those who experienced an income shock compared to those who did not.
Financial Problems among Former College Attenders in 2009

Authors’ analysis of National Longitudinal Survey of Youth, 1997 Cohort.
Student Loans Increase Financial Vulnerability in Hard Times

<table>
<thead>
<tr>
<th>Odds ratios</th>
<th>Hardship</th>
<th>Behind loan</th>
<th>Revolving balance</th>
<th>Revolving store</th>
<th>Rarely pays bal</th>
<th>Payday loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student loan-holding</td>
<td>2.675***</td>
<td>2.306***</td>
<td>2.354***</td>
<td>2.017***</td>
<td>1.806***</td>
<td>1.382</td>
</tr>
<tr>
<td>Amount of student loans, ($1000s)</td>
<td>1.018***</td>
<td>1.012***</td>
<td>1.017***</td>
<td>1.013***</td>
<td>1.013***</td>
<td>1.005</td>
</tr>
<tr>
<td>Amount of monthly payments</td>
<td>1.002***</td>
<td>1.001*</td>
<td>1.002***</td>
<td>1.001***</td>
<td>1.001***</td>
<td>0.999</td>
</tr>
<tr>
<td>Monthly payment to loan ratio</td>
<td>2.000***</td>
<td>1.150***</td>
<td>5.510***</td>
<td>4.60***</td>
<td>9.170**</td>
<td>1.240</td>
</tr>
</tbody>
</table>

Effects worst for those with some college but less than a bachelor’s degree.
Authors’ analysis of *Survey of Consumer Finances* data, pooled 1995-2013.
Proportion Took Out Payday Loans By Degree

*Weighted and Adjusted for Imputation*
Financial Risk and College in Context

INSTITUTIONS AND THE GROWING IMPORTANCE OF STATES
State Higher Ed Appropriations Declining

Academic Year
For-Profit Enrollment Increasing

- % (FTE-fall) Students in State That are For Profit
- Lb/ub

![Graph showing the increasing percentage of students enrolled in for-profit higher education institutions from 1990 to 2010. The graph indicates a steady increase in the percentage of students enrolled in for-profit education over the years, with a notable rise in recent years.](image-url)
Preliminary results

Aggregate level:
States with declining investments in higher ed see rising for-profit enrollments.

Individual level:
Students with fewer high-quality local educational opportunities take on more risk.
IMPLICATIONS FOR INSTITUTIONAL CHANGE
What would be useful?

- Change existing system: reduce risk in loan-holding
  
  already have moved toward some reforms

- New system: recommitting to public goods
  
  some conversations toward
Percent of Borrowers Paying 10% or Greater Interest Rates for Student Loans by Education of Head

Authors’ analysis of *Survey of Consumer Finances* data.
What would be useful?

• Change existing system: reduce risk in loan-holding

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• New system: recommitting to public goods

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IMPLICATIONS FOR FINANCIAL EDUCATION
What do we DO with these findings?

Even if many issues are at the system level, individuals still must make choices.

How to help individuals track their way through the system as it exists… even while also advocating for system change?

Could better informed choices influence the structures?
Targeted and systemic at the same time

Less than bachelor’s group particularly financially precarious

Key to capability: contextual education—make literacy relevant to circumstances
  — Models: medical education, police education

Financial education often fundamentally about risk, but discussions about student loans often paint with a very broad brush.

Understand the institutional risks associated with different credit instruments—my sense is this is underdeveloped for student loans relative to other credit instruments.
Back to individuals

No matter what, increases complexity and requirement of financial capability.

But there are limits to what individuals can plan.

Our findings suggest that an important policy goal should be to provide insurance against the risks for some.
YOU ARE NOT A LOAN