

# Forever in Your Debt

## Who Has Student Loan Debt, and Who's Worried?

Caroline Ratcliffe and Signe-Mary McKernan, The Urban Institute

As Americans pursue more education, they also accrue more debt. Outstanding student loan balances in the United States total roughly \$1 trillion (Federal Reserve Bank of New York 2013). While other types of debt, including credit card and mortgage debt, fell in the aftermath of the Great Recession, student loan debt increased sharply—the result of more people taking out student loans and of people borrowing more money. In 1989, student loans were a relatively small component of the debt held by 29–37-year-olds; by 2010, they were second only to mortgage debt (figure 1).

**B**allooning student loan debt has contributed to the lower wealth accumulation of Generations X and Y (Steuerle et al. 2013). Beyond the short-term burden of repaying loan balances and interest, this early debt can delay building a rainy day fund, saving for retirement, and homeownership. However, like homeownership and mortgage debt, college and the accompanying student loan debt is an investment that can pay off in the future. For the roughly 50 percent of people who complete degrees, college is still a good investment on average (Avery and Turner 2012).

Student loan debt follows one of every five Americans age 20 or older<sup>1</sup> and roughly two of every three college seniors who graduated in 2011 (Reed and Cochrane 2012). These recent college graduates owe nearly \$27,000 on average. The Great Recession likely added to debt holders' concerns: graduates starting out their careers are looking for work in a weak labor market, while older borrowers with student loan debt may be struggling because of declines in other assets (e.g., houses or retirement accounts). A delinquency rate of 17 percent is stark evidence

that many Americans struggle to repay their student loans (Edmiston, Brooks, and Shelpelwich 2013).<sup>2</sup>

Using the FINRA Investor Education Foundation's 2012 National Financial Capability Study (NFCS), this brief examines who has student loan debt and who is worried about their ability to repay.<sup>3</sup> Over half (57 percent) of people with student loans are concerned that they may be unable to repay that debt.<sup>4</sup> This concern cuts across demographic and economic groups but is more prevalent among people with financially dependent children, women, people not employed full time, and people with lower household incomes.

### Who Has Student Loan Debt?

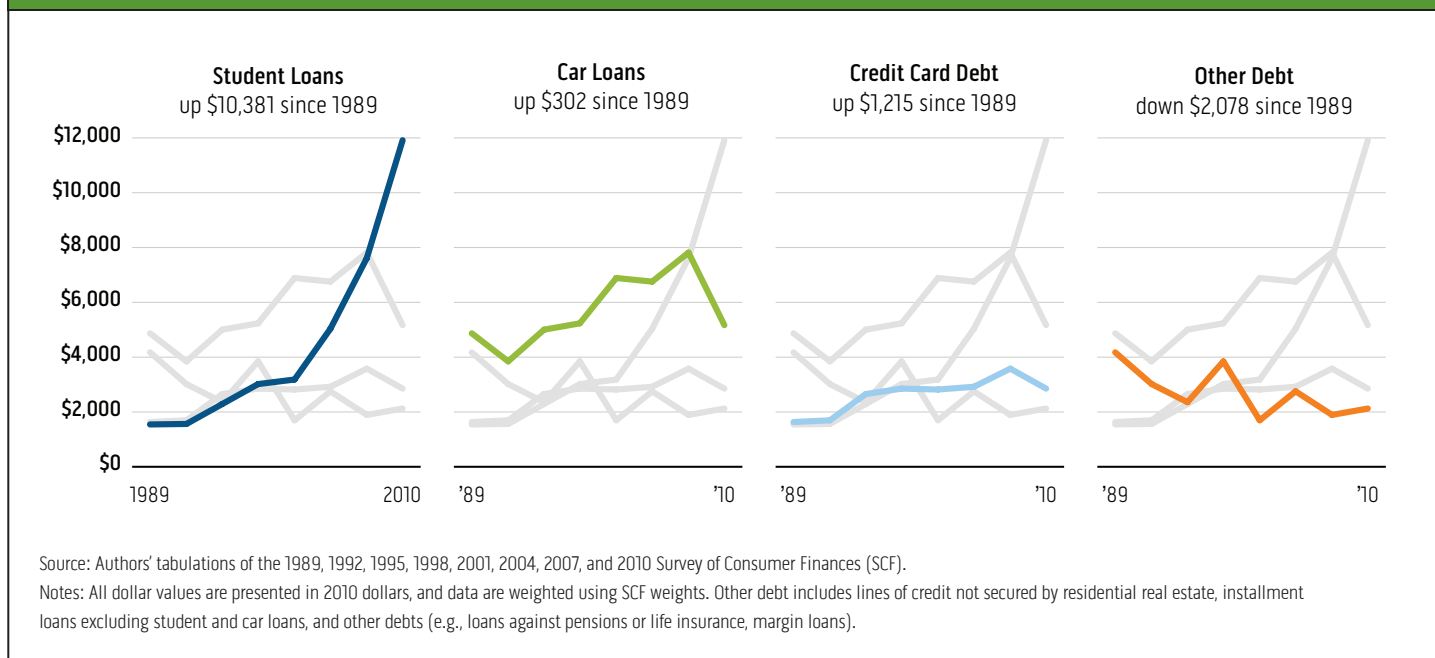
The 20 percent of U.S. adults age 20 and older who have student loan debt are a varied group: young and old, white and nonwhite, men and women, low income and high income, college educated and not. The likelihood of having student loan debt does, however, differ significantly across these subgroups.

Student loan debt is not exclusive to the highly educated. Nine percent of people with

While credit card and mortgage debt fell in the aftermath of the Great Recession, student loan debt increased sharply.

no more than a high school degree have student loan debt (figure 2). They could have incurred this debt for a nondegree training certificate or by funding a child's education. The fraction increases to 25 percent for people with some college education but no college degree. Some of these people could still be in school, others may have completed a

Figure 1. Student Loan Debt Is Increasing



nondegree certificate, and still others may have failed to complete the degree for which they took out the loan.<sup>5</sup> The incidence of student loan debt is slightly higher for those with a college or graduate degree: 30 and 28 percent, respectively.

Student loan debt is held by adults across the income spectrum; the percentage of people holding student loan debt differs little across the four income groups examined. At the ends of the spectrum, 20 percent of people in households with income below \$25,000 have student loan debt, as do 18 percent of people in households with income over \$100,000.<sup>6</sup>

The likelihood of having student loan debt decreases sharply with age. While 40 percent of people age 20–29 have student loan debt, the number drops to 19 percent for people age 40–49 and 4 percent for those age 60 and older. The percentages are substantially higher for people with at least some college education, but the trend is the same. Overall, 27 percent of Americans with at least some college education have student

loan debt, with the numbers ranging from 56 percent of 20–29-year olds to 6 percent of those age 60 and older (not shown).

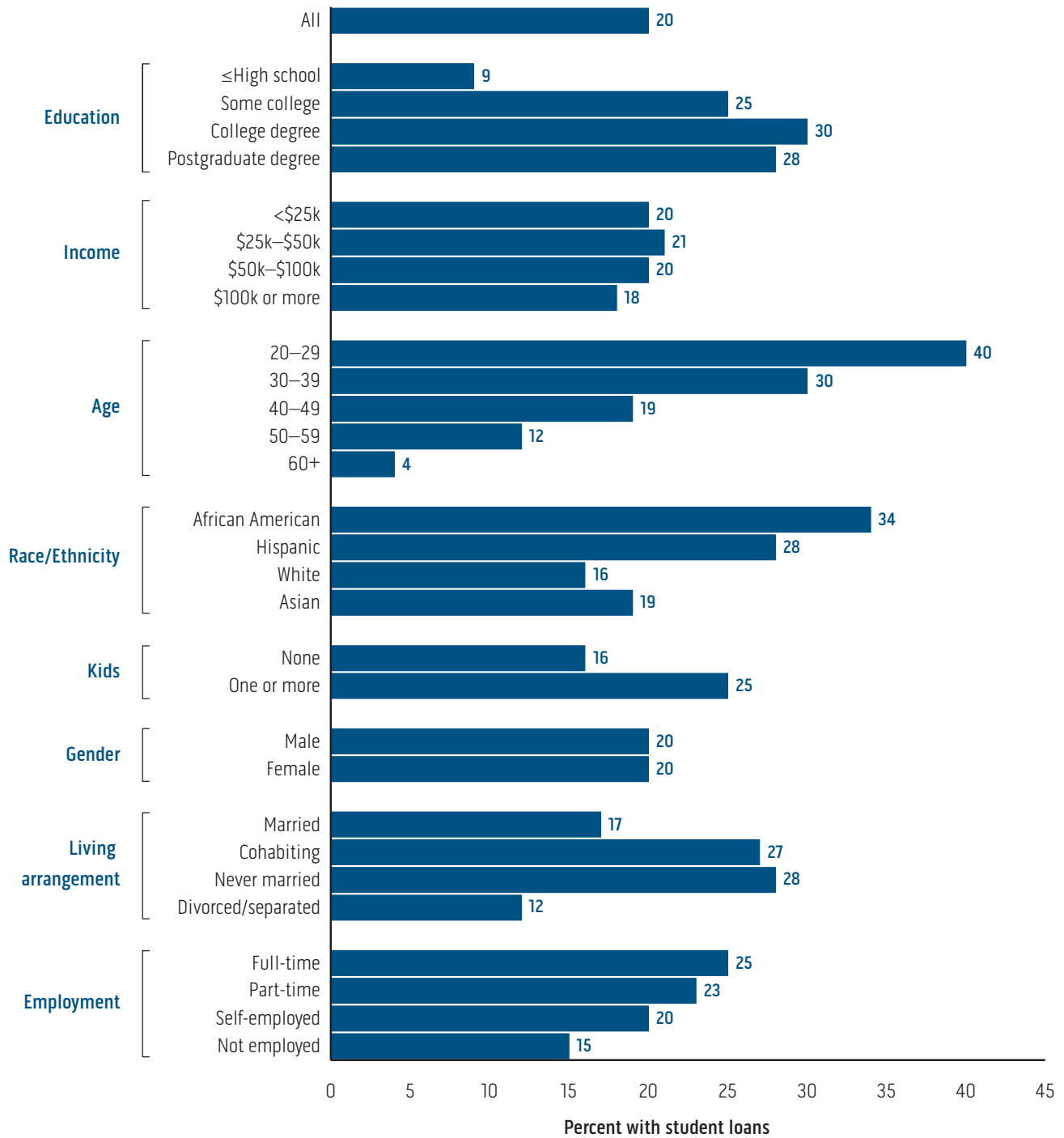
African Americans and Hispanics are about twice as likely to have student loan debt as whites. While 16 percent of whites have student loan debt, 34 percent of African Americans and 28 percent of Hispanics do so. The same 2-to-1 ratio holds among people who have some education beyond high school.<sup>7</sup> This is not surprising, given that white families have six times the wealth of African American and Hispanic families (McKernan et al. 2013). Greater family wealth translates into greater opportunity, as adults can use the wealth to finance educations for themselves, their children, or their grandchildren.

Student loan debt is also more likely to be held by people with financially dependent children (versus no financially dependent children), who are employed (versus not employed), and who are never married or are cohabiting (versus married or divorced/separated).<sup>8</sup>

### Who Is Worried about Repaying Student Loan Debt?

Concern about ability to repay student loan debt is pervasive. Over half (57 percent) of people with student loans are concerned about being unable to repay them.<sup>9</sup> This concern is far reaching and spans economic and demographic groups, including educational attainment, income, age, and race/ethnicity, among others (figure 3). Student loan repayment concerns are, however, more common among some groups. For example, while a substantial 36 percent of student debt holders with household incomes above \$100,000 are concerned about their ability to repay, the percentage is twice that (72 percent) among those with household incomes less than \$25,000. Concern about repayment among people in high-income households could be linked to higher levels of debt for this group (possibly debt taken on from graduate school), although this link cannot be examined directly with NFCS data.

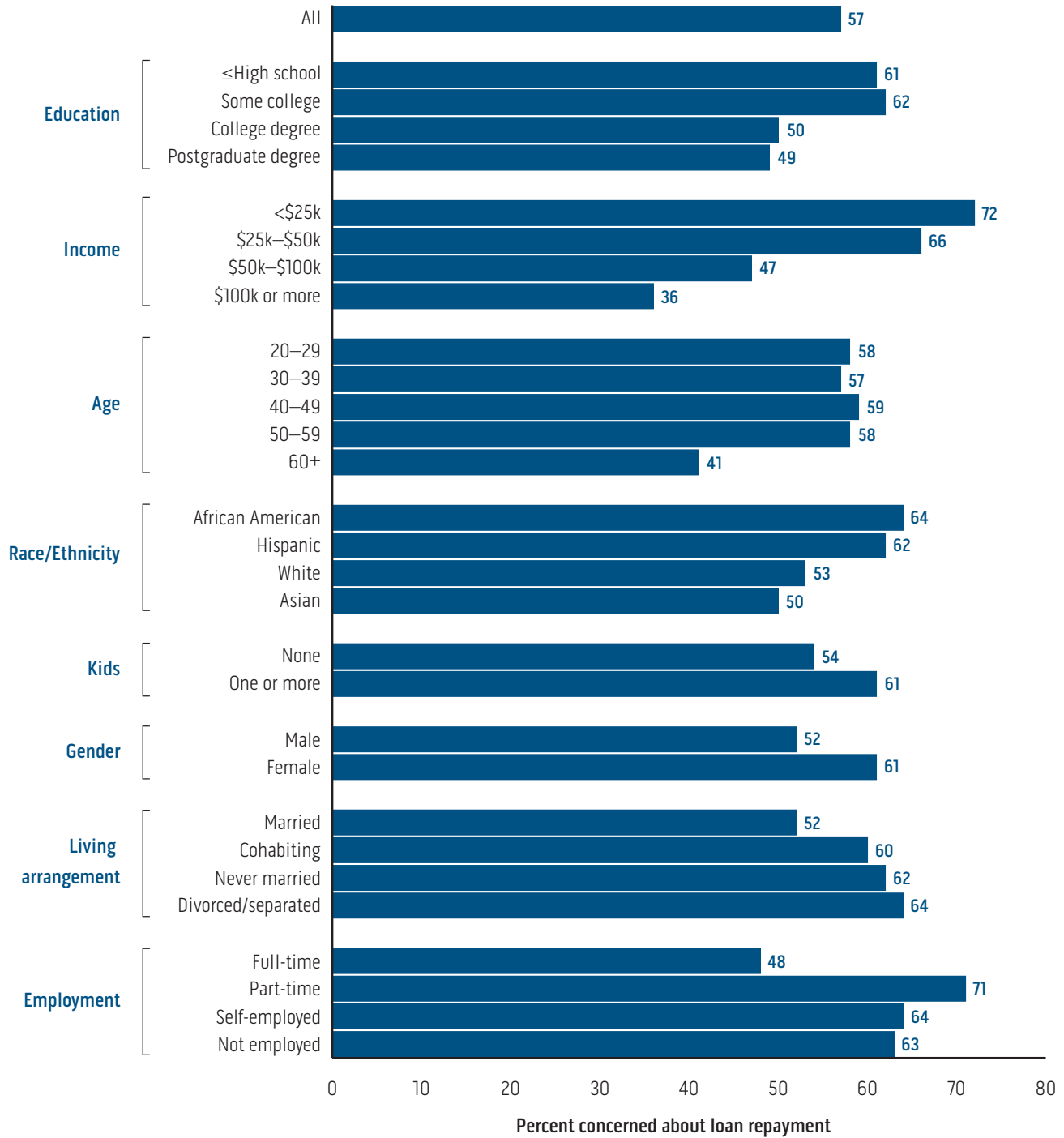
Figure 2. Who Has Student Loan Debt?



Source: Authors' calculations of the 2012 National Financial Capability Study (NFCS).

Notes: All percentages are weighted using the NFCS national person weight. People identified as African American, Asian, and white are non-Hispanic. "Never married" excludes people who are cohabiting.

Figure 3. Who Is Worried about Repaying Student Loan Debt?



Source: Authors' calculations of the 2012 National Financial Capability Study (NFCS).

Notes: All percentages are weighted using the NFCS national person weight. People identified as African American, Asian, and white are non-Hispanic. "Never married" excludes people who are cohabiting.

To understand who is most worried about student loan debt, a regression framework is used to measure the relationship between student loan repayment concern and person- and household-level characteristics. The regression model separately examines each characteristic—educational attainment, household income, age, race/ethnicity, number of financially dependent children, gender, living arrangement, employment status, and region—while controlling for the remaining characteristics.<sup>10</sup>

People with college degrees are less worried about repayment. People with some college but no degree and people with graduate degrees are 13–14 percent more likely than people with college degrees only to be concerned about repaying student loan debt (figure 4).<sup>11</sup> People with some college include those who did not complete their degree and those who received a nondegree certificate that may not be as valuable as expected, possibly driving the higher rates of repayment concern. People with graduate degrees could have loans for both college and graduate school, increasing their repayment stress.

People in lower-income households are substantially more likely to have concern about their ability to repay their student loans. Compared with people in households with incomes above \$100,000, people in households with incomes below \$25,000 are 86 percent more likely to worry about repaying their student loans. The concern is nearly as great for people with incomes between \$25,000 and \$50,000; they are 72 percent more likely to worry. In comparison, those with incomes between \$50,000 and \$100,000 are 29 percent more likely to worry about student loan repayment than their counterparts with incomes above \$100,000.

While age is significantly related to who has debt, it is not significantly related to loan repayment concerns, with one exception: people age 60 and older are, on average, sig-

nificantly less likely (24 percent) to be concerned about their ability to repay student loan debt. These individuals are retired or nearing retirement, so we might expect them to have greater concerns about their ability to repay debt. At the same time, they may have less student loan debt, making repayment less of a concern.

Not surprisingly, having financially dependent children is strongly related to concerns about student loan repayment, likely because of competing needs and expenses. Compared with adults who have no financially dependent children, adults with two financially dependent children are 18 percent more likely to be concerned about repaying their student loans.

While women are no more likely than men to have student loan debt, they are more likely to worry about repaying it. Women are 8 percent more likely to be worried about their ability to repay student loan debt, even controlling for household income, household structure, and number of financially dependent children. This result is consistent with research that finds that women are less confident than men in their current economic standing and less confident that they will reach their financial goals (Prudential Financial 2012). Also, because women are more likely than men to pay family bills (e.g., Fonseca et al. 2010), women may be more aware of the monthly student loan payments and their impact on family finances.

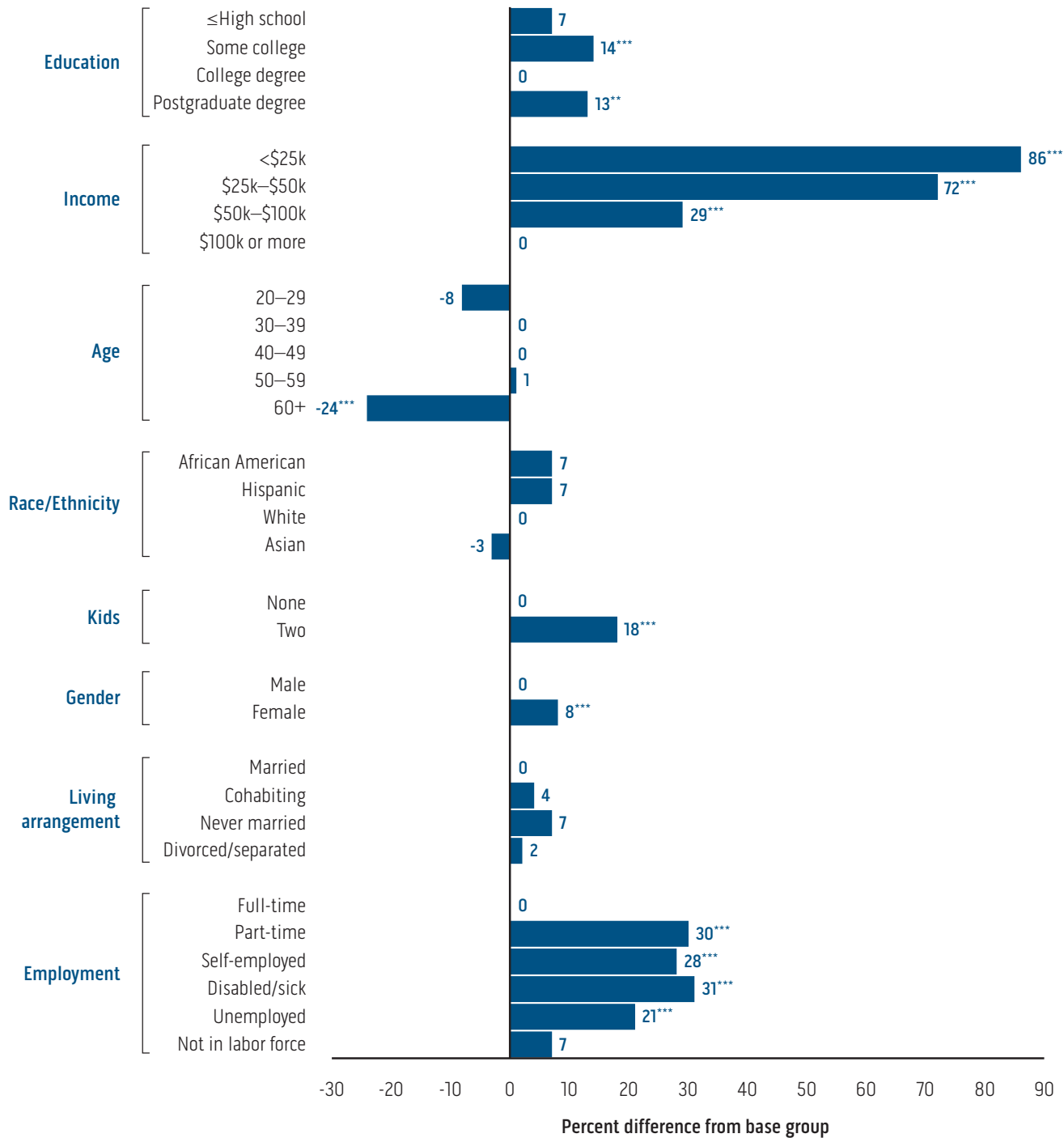
People not employed full time are more worried, even when controlling for household income. Compared with those employed full time, people who are self-employed, employed part time, or disabled/sick are about 30 percent more likely to be concerned about repaying student loan debt, while people who are unemployed are 21 percent more likely to be concerned. People who are not in the labor force do not differ significantly from people who are employed full time.

People who live in the northeast have greater concerns about ability to repay student loan debt than people in the rest of the country (not shown). According to a recent report from the Federal Reserve Bank of New York (2013), a number of northeastern states have above-average student debt per borrower. While some of these same states have below-average student loan delinquency rates, the higher debt levels could increase stress and concern around ability to repay. Race and ethnicity, as well as household structure, are not significantly related to concerns about student loan repayment. While the descriptive statistics show that African Americans are more likely than non-Hispanic whites to worry about student loan repayment (64 percent versus 53 percent, respectively), there is no statistically significant difference between the two groups after controlling for person- and household-level characteristics, including income and employment status.

## Where Do We Go from Here?

Student loan debt is an important component on the balance sheets of many Americans. Twenty percent of U.S. adults and 35 percent of people in their 20s and 30s have student loan debt. On average, the benefits of post-secondary education outweigh the costs for people able to complete their degrees, although roughly half do not complete their degrees.<sup>12</sup> And, over half (57 percent) of people with student loans, whether they complete their degrees or not, are concerned that they may be unable to pay off that debt. This concern cuts across demographic and economic groups but is more prevalent among women and people with lower household incomes, financially dependent children, and less than full-time employment. With increasing college tuition, the slow labor market recovery since the Great Recession, and high rates of unemployment and underemployment

Figure 4. Who Is Most Worried about Repaying Student Loan Debt?



Source: Authors' calculations of the 2012 National Financial Capability Study.

Notes: The graph represents the percent change (increase/decrease) in the likelihood of being concerned about student loan repayment relative to the base group, based on the probit regression. People identified as African American, Asian, and white are non-Hispanic. "Never married" excludes people who are cohabiting.

\*\* difference is significant at the  $p < .05$  level; \*\*\* difference is significant at the  $p < 0.01$  level.

among new graduates, the prospect of a quick turnaround is dim.

Those unable to meet their student loan payment obligations will likely end up with a delinquency on their credit reports. A poor credit report can affect an individual's ability to get traditional credit, the price of that credit, and, in some cases, employment opportunities. Even for people who stay current on their student loans, high monthly payments can hinder the ability to get on a firm wealth-building path. Starting early is important for compounding wealth over time and increases the likelihood of financial success. Accumulating debt early makes it harder to build assets later. Student loan debt can negatively impact the economy by delaying family formation and homeownership,<sup>13</sup> reducing household spending, and suppressing entrepreneurship and small business growth (Chopra 2013; Consumer Financial Protection Bureau 2013).

Several available levers could help more Americans reduce their reliance on student loans, reduce the anxiety around repaying loans, and make college more affordable. Helping young Americans and their families make sound decisions about their education and how to pay for it is a good place to start. The Financial Literacy and Education Commission recommends starting financial education and planning as early as kindergarten and continuing well beyond high school. Federal agencies, including the Department of Education, Department of the Treasury, and Consumer Financial Protection Bureau, provide information and tools to increase financial capability and help people make informed decisions about planning for, finding, and paying for college.<sup>14</sup>

As future borrowers contemplate their path, they may also want to consider factors that could affect their debt level and their ability to pay back their loans. For example,

prospective students should consider the likelihood of finishing their degree, earnings in their field of study, and the type of student loan (federal or private).<sup>15</sup> While a college degree remains a good investment, these elements should be considered when deciding where to attend school and how to finance it (Avery and Turner 2012). In addition, it would be helpful if colleges and universities clearly disclosed to students the repayment amount and clarified the difference between grant aid and loans. Indeed, better information about differences in public and private student loans are critical for students to make good decisions, as private loans do not offer the same protections and repayment options as federal student loans (Consumer Financial Protection Bureau 2013; Reed et al. 2011).

In terms of reducing students' reliance on student loans and making college more affordable, the federal government has recently expanded Pell grants, but the grants have not kept pace with rising tuition (the maximum grant is less than \$6,000). Further increasing the maximum Pell grant and expanding refundable tax credits aimed at low- to moderate-income or -wealth families can make college more affordable. For low-income, low-wealth students, these steps could be the difference between attending college or not, or having student loan debt follow them and weigh them down over time. Funding for such programs could be particularly beneficial to families of color, who have considerably less average wealth than white families and are substantially less likely to receive large gifts or inheritances, which could be used to finance postsecondary education.<sup>16</sup> In short, policies that provide or subsidize education could reduce reliance on student loans and the concomitant concerns associated with repaying these loans—particularly

among more vulnerable demographic groups, like those with limited financial resources.

Once students have debt, income-contingent repayment initiatives in federal loans can help them meet their obligations with less financial strain. Such programs can ease financial constraints so student loan holders can take lower paying “public interest” jobs versus taking the highest paying job in order to afford their student loan payments (Rothstein and Rouse 2010).<sup>17</sup> While income-contingent repayment initiatives exist for current and recent borrowers, extending those initiatives to earlier federal student loan borrowers can help a broader group of Americans—some of whom were likely hit by the recent financial and housing crisis—successfully repay their student loans and get on a secure financial path.<sup>18</sup> Two important elements in these income-contingent programs are ensuring that student loan holders are aware of the program and making enrollment easy. Consolidating current federal loans into a single income-based repayment program with borrowing limits could simplify the current system and help students better understand their loan terms and repayment obligations (HCM Strategists 2013).

Helping young Americans take advantage of student loans to complete degrees but avoid burying themselves in student loan debt will enable wealth accumulation after they finish school. Early steps in the right direction can help students move up the wealth-building ladder and attain economic security. ■

## Notes

1. According to the authors' tabulations of the 2012 National Financial Capability Study (NFCS), 19.6 percent of U.S. adults age 20 and older have student loan debt. This is similar to tabulations from the 2010 Survey of Consumer Finances, which show that 19.0 percent of U.S. families where the head is age 20 and older have student loan debt.
2. This calculation includes only loans with a minimum payment above zero.
3. The NFCS asks respondents if they "have any student loans" but does not ask respondents to provide the amount of their student loan debt. It does not distinguish between different types of loans (e.g., federal, state, or private).
4. This calculation omits the roughly 5 percent of student loan holders who did not know or said they "prefer not to say" whether they are concerned about student loan repayment. If these individuals are included in the calculation, the share concerned about repayment is 54 percent.
5. Restricting the sample to people who are unlikely to be current students produces a lower, although still relatively high, incidence of student loan debt among people with some college but no degree: 17 percent.
6. Household income is measured at the time people report whether they have student loan debt, not their income or their parents' income when attending school.
7. Among people with at least some college, 22 percent of whites have student loan debt, compared with 43 percent of African Americans and 36 percent of Hispanics (not shown).
8. The authors also estimate a multivariate regression model to examine the relationship between student loan debt and each characteristic (educational attainment, household income, age, race/ethnicity, number of financially dependent children, gender, living arrangement, employment status, and region), while controlling for the remaining characteristics. Rates of student loan debt are higher among people with higher levels of education, people in lower-income households, younger people, African Americans, and people with more financially dependent children.
9. The 2012 NFCS asks respondents who have student loan debt if they "are concerned that you might not be able to pay off your student loans?" A 2002 Nellie Mae survey of student loan borrowers found that 56 percent of respondents felt burdened by student loan payments (Baum and O'Malley 2003). This percentage is similar to this brief's 57 percent, although it captures a different concept (burden versus concern), period (2002 versus 2012), and sample ("student loan borrowers in repayment who had a least one federal student loan with Nellie Mae" versus people who have a student loan based on a nationally representative sample).
10. The authors estimate a probit model; the dependent variable is a binary variable (0/1) that indicates whether the person is worried about repaying his or her student loan debt.
11. The percent difference is calculated as the ratio of the marginal effect from the probit model (not shown) and the percent of people in the comparison category who are concerned about student loan repayment (here, 50 percent for people with a college degree, figure 3). All other percent differences are calculated using this same approach.
12. Among people who expected to complete a BA but received no degree, 51.3 percent have a student loan with an average amount of \$14,457 (Avery and Turner 2012). Risk factors for dropping out include being less prepared for college, delaying enrolling in college after high school, enrolling in college part time, and working full time (Gladieux and Perna 2005).
13. Givecha (2012) finds that among people under age 37, a \$10,000 increase in borrowing for education reduces the likelihood of marriage by 11 percentage points for men and 17 percentage points for women.
14. See [www.Ed.gov](http://www.Ed.gov), [www.mymoney.gov](http://www.mymoney.gov), and [www.consumerfinance.gov](http://www.consumerfinance.gov).
15. Credit card debt is also an important consideration as some students take on credit card debt instead of less expensive student loans.
16. White families are five times more likely than African American and Hispanic families to receive a large gift or inheritance. This disparity in large gifts and inheritances explains part of the large black-white racial wealth gap (McKernan et al. 2012).
17. Rothstein and Rouse find that high debt levels lead graduates to take much higher salary jobs, reducing the likelihood they take lower paying "public interest" jobs.
18. Such an extension would not help people with private student loans.



## References

- Avery, Christopher, and Sarah Turner. 2012. "Student Loans: Do College Students Borrow Too Much—Or Not Enough?" *Journal of Economic Perspectives* 26(1): 165–92.
- Baum, Sandy, and Marie O'Malley. 2003. "College on Credit: How Buyers Perceive Their Education Debt." *Journal of Student Financial Aid* 33(3): 7–19.
- Chopra, Rohit. 2013. "Student Debt Domino Effect?" Op-ed. Washington, DC: Consumer Financial Protection Bureau.
- Consumer Financial Protection Bureau. 2013. "Student Loan Affordability: Analysis of Public Input on Impact and Solutions." Washington, DC: Consumer Financial Protection Bureau.
- Edmiston, Kelly D., Lara Brooks, and Steven Shelpelwich. 2013. "Student Loans: Overview and Issues (Update)." Research Working Paper RWP 12-05. Kansas City, MO: Federal Reserve Bank of Kansas City.
- Federal Reserve Bank of New York. 2013. "Quarterly Report on Household Debt and Credit." Research and Statistics Group, Microeconomic Studies. New York: Federal Reserve Bank of New York.
- Fonseca, Raquel, Kathleen Mullen, Gema Zamarro, and Julie Zissimopoulos. 2010. "What Explains the Gender Gap in Financial Literacy? The Role of Household Decisionmaking." Working Paper WR-762. Santa Monica, CA: RAND.
- Givecha, Dora. 2012. "In Debt and Alone? Examining the Causal Link between Student Loans and Marriage." Working Paper, Department of Economics. Greensboro: University of North Carolina at Greensboro.
- Gladieux, Lawrence, and Laura Perna. 2005. "Borrowers Who Drop Out: A Neglected Aspect of the College Student Loan Trend." Report#05-2. San Jose, CA: National Center for Public Policy and Higher Education.
- HCM Strategists. 2013. "Doing Better for More Students: Putting Student Outcomes at the Center of Federal Financial Aid." Washington, DC: HCM Strategists.
- McKernan, Signe-Mary, Caroline Ratcliffe, Margaret Simms, and Sisi Zhang. 2012. "Do Financial Support and Inheritance Contribute to the Racial Wealth Gap?" Opportunity and Ownership Project Fact Sheet 26. Washington, DC: The Urban Institute.
- McKernan, Signe-Mary, Caroline Ratcliffe, Eugene Steuerle, and Sisi Zhang. 2013. "Less Than Equal: Racial Disparities in Wealth Accumulation." Washington, DC: The Urban Institute.
- Prudential Financial, Inc. 2012. "Financial Experience and Behaviors among Women." 2012-2013 Prudential Research Study. Newark, NJ: Prudential Financial, Inc.
- Reed, Matthew, Lauren Asher, Seth Frotman, and Debbie Cochrane. 2011. "Critical Choices: How College Can Help Students and Families Make Better Decisions about Private Loans." Oakland, CA: Institute for College Access and Success.
- Reed, Matthew, and Debbie Cochrane. 2012. "Student Debt and the Class of 2011." Oakland, CA: Institute for College Access and Success.
- Rothstein, Jesse, and Cecilia Elena Rouse. 2010. "Constrained after College: Student Loans and Early-Career Occupational Choices." *Journal of Public Economics* 95(2011): 149–63.
- Steuerle, Eugene, Signe-Mary McKernan, Caroline Ratcliffe, and Sisi Zhang. 2013. "Lost Generations? Wealth Building among the Young." Washington, DC: The Urban Institute.

## About the National Financial Capability Study

The data for this brief come from the 2012 National Financial Capability State-by-State Survey, sponsored by the FINRA Investor Educational Foundation and developed in consultation with several federal agencies and the President's Advisory Council on Financial Capability. This Internet-based survey includes roughly 500 respondents per state, for a total sample of over 25,000 respondents. When weighted, the data are nationally representative.

The survey asks various point-in-time questions about respondents' demographic and economic characteristics, including age, educational attainment, race and ethnicity, living arrangements, number of financially dependent children, income, and employment status.<sup>a</sup> Key for this brief are questions that ask respondents if they have student loan debt and, among those who have student loan debt, if they "are concerned that you might not be able to pay off your student loans?" Item nonresponse is relatively low for most survey questions. One percent of respondents either did not know or said they "prefer not to say" whether they have student loan debt, although nearly 5 percent of those with student loans did not know or said they "prefer not to say" whether they were concerned about repayment of the student loan. The NFCS survey does not ask respondents for the amount of their student loan debt. More detailed information on the National Financial Capability Study—including the questionnaire and a methodology document—is available at [www.USFinancialCapability.org](http://www.USFinancialCapability.org).

a. All questions used for this analysis ask about the individual except for number of financially dependent children (self and spouse/partner) and income (household).

For more information:  
[www.urban.org/changing-wealth-americans/](http://www.urban.org/changing-wealth-americans/)

Copyright © June 2013

The authors thank Gary Mottola and Kim Rueben for helpful comments and William Monson for excellent research assistance. This publication was supported by funding from the FINRA Investor Education Foundation and the Ford Foundation. All results, interpretations, and conclusions are those of the authors, and do not necessarily represent the views of the FINRA Investor Education Foundation or any of its affiliated companies, or of the Urban Institute, its trustees, or its funders. Permission is granted for reproduction of this document, with attribution to the Urban Institute.

URBAN INSTITUTE  
2100 M Street, NW Washington, DC 20037-1231  
(202) 833-7200  
[publicaffairs@urban.org](mailto:publicaffairs@urban.org) [www.urban.org](http://www.urban.org)