

Asset Building, a Better Way to Make Education an Engine of Mobility

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Presentation by

William Elliott III, Director of The Center on Assets, Education, and Inclusion (AEDI)



The American Ethos: Education the “Great Equalizer”

- While European nations have relied on the “direct redistributive role of the welfare state to reconcile citizenship and markets,” the United States has chosen to use education as a lever for ensuring equitable outcomes (Carnevale and Strohl 2010, 83).
- Effort + Ability = Desired Outcomes

Research Question Driving Existing Knowledge Base: Aligns with Paradigm of Equity as Access

- The Question Guiding the Current Financial Aid Paradigm
 - Is a child who attends college and graduates with student debt better off than if they did not attend college at all?
- Earnings differential – how much on average does a college graduate earn in comparison to how much those with less education earn.
 - A 4-year college graduate's median earnings in 2008 were \$55,700 compared with \$21,900 for a high school graduate (College Board 2010).
 - Carnevale, Rose, and Cheah (2011) found that, over his/her lifetime, an adult with a high school diploma earns an average of \$1,547,000, compared to \$2,268,000 for an adult with a college degree.

Down the Path of Debt Dependency

- The current focus suggests how people pay for college does not matter, it only matters that they have the money to pay for it.
 - This helped open the doors for student loans becoming the dominant way we finance education today.

Prophecy of the Pending College Debt Crisis

“But I expressed deep concern that we had not even the remotest idea of what **reasonable debt limits might** be, and that having discovered loans, we might be **tempted to rely more and more** on them as substitute for, rather than a supplement to, societal and parental support. I feared we might place the **heaviest burden on debt on our poorest citizens**. And I expressed concern that if we did, **collection and default problems would grow**, to the disillusionment of all who created the problem.”

John F. Morse, 1977

Coming to Fruition – We Still Don't Know What a Reasonable Debt Limit Is

- The Brown et al. (2014) – New York Federal Reserve Bank
 - The highest default rates, at nearly 34%, are among the borrowers who owe less than \$5,000.¹

¹ See, http://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html#.VqWitVLzPv4

Coming to Fruition – We are Relying More Heavily on Student Loans

- Student loan programs have become associated with policies that would explicitly shift more of college costs from the taxpayer to the student.
 - Federal, state, and private grants were the largest form of financial aid until 1982 (Heller, 2011)
 - In 2000, student loans made up 38% of net tuition, fees, room, and board; by 2013 they made up 50% (Greenstone, Looney, Patashnik, and Yu, 2013)
- The leveling off of student aid spending in the early 1980's was partially responsible for the shift toward loan spending and away from grant spending that has continued to the present day.
 - As higher education is increasingly framed as a private good rather than a public investment, cost burdens shift to students and families. In 1980, student tuition accounted for about 20% of major universities' operating funds, but by 2006 this share had more than doubled, to 43% (Geiger & Heller, 2011).
 - Nationwide, states spent 28% less on higher education in 2013 than in 2008, cuts that are directly correlated with increases in tuition and other fees and reductions in educational quality (Oliff, Palacios, Johnson, & Leachman, 2013).

Coming to Fruition – There are Growing Rates of Default and Delinquency

- According to New York Federal Reserve Bank (2014), the student loan delinquency rate is higher than any other consumer debt product; by 2012, just over 30% of borrowers who began repayment were delinquent at some point.
 - According to the U.S. Department of Education (2012), the national three-year default rate was 13.4%.
 - Cunningham and Kienzl (2011) found that nearly 41% of borrowers have been delinquent or defaulted on their loans.
- About 2.2 million Americans 60 years+ were liable for repayment of \$43 billion in federal and private student loans in 2012, up \$15 billion from 2007. Of these, 9.5% were at least 90 days delinquent, up about 7.4% from 2007 (Greene, 2012).
- Students from lower-income households are more likely to default (Woo, 2002), along with students of color (Herr and Burt, 2005).

Growing Defaults has Led to Tweaks Around the Margins :

Treating the Symptoms not the Problem

- Treating the Symptoms not the Underlying Problem
 - Deferment and Forbearance; Income-Based Repayment; Pay-It-Forward
- Policy Tweaks May Mask the Growing Problem
 - About 21% of borrowers avoid delinquency by using deferment or forbearance (Cunningham and Kienzl, 2011).
 - 9 half years after leaving school, the 2005 cohort **has paid down only 38% of its original student debt**. Under a standard 10-year amortization schedule, these loans would be approaching full repayment, and only about 10% of the original balance would remain. (Brown et al., 2015)
 - Of high-balance borrowers, **22% have student loan balances higher in 2014 than they did in 2009**, even without ever falling into severe delinquency or default. (Brown et. al., 2015)
 - The average time that it takes to repay student loans grew from about 7 years in 1992 to a little more than 13 years in 2010 (Akers and Chingos, 2014).
 - Use of Income-Based Repayment, which extends normal repayment from 10 to up to 25 years, **has doubled over the last two years**.

Coming to Fruition – The Heaviest Burden is Falling on Some of the Poorest Students

- Total borrowing for college hit \$1.3 trillion.
 - In 2014 69% of students graduated with debt; average bachelor student graduated with about \$28,950 in student debt (see http://ticas.org/sites/default/files/pub_files/classof2014.pdf).
- Heaviest Burden on the Poorest Students
 - 84% of bachelor's degree recipients at public colleges who receives Pell Grants borrow for the credential, compared to 46% of those who never received Pell (Huelsman, 2015)
- Racial disparities in SES and wealth account for over 35% of the black-white student loan debt in young adulthood.
 - Parental wealth (separating out wealth into: negative net worth, positive net worth, and home ownership) further explained an additional 20% of the remaining racial debt gap. (Note: this is because black families are far more likely to have negative net worth or debt)

Structure of a Financial Aid Revolution

- In *The Structure of Scientific Revolutions* Thomas Kuhn discusses how periods of normal science are interrupted by periods of revolutionary science.
 - Kuhn suggests that during periods of normal science researchers **identify questions to investigate based on existing knowledge**.
 - The insights gained from these analyses are constrained, then, by the limits of the prevailing paradigm. Resulting **changes tend to mostly comprise tweaks around the margins, rather than fundamental reconsiderations**.
 - Periods of normal science persist until the current paradigm becomes **increasingly less able to solve a growing number of the problems**, or when **external events provoke a clamor for a different vision**.
A revolution.
- Revolutions seldom start, however, without a spark.

The Spark that has Led to a New Paradigm of Equity

- The Great Recession drew America's attention to the issue of equity in a way that it maybe had not been since the Great Depression.
 - Average household wealth declined 15% between 2007 and 2010 and has only recovered 45% of its value (Boshara and Emmons, 2013)
- **New Question:** Maybe helping to build momentum for new financial aid paradigm
 - Are children who have to pay for college with student loans able to achieve similar outcomes as children who do not have to pay for college with student loans when effort and ability are the same?

Doubts about the Ability of the Current Paradigm to Solve a Growing Number of Problems

- Diminishes the Return on a Degree – Post College Financial Health
 - Psychological: Adults 18–39 with a 2- or 4-year degree with outstanding debt are less likely to perceive payoff from degree (Fry, 2014).
 - Labor Market Decisions (Rothstein & Rouse, 2011)
 - Delay Marriage (Gicheva, 2011)
 - Earn less by the time they reach their 40s (Hiltonsmith, 2013)
 - Net Worth (Elliott & Nam, 2013)
 - Retirement Savings (Egoian, 2013)
 - Home Ownership (Cooper & Wang, 2014)
- According to the Government Accounting Office (2003), assuming a standard ten-year payback at 7% annual interest, average cumulative undergraduate educational debt exceeded \$18,000 in 2000, which corresponds to a \$6,000 premium borrowers pay for a college education.

Why a Fundamental Reconsideration of the Financial Aid System is Needed – Education Weakened as an Equalizer

- Minority children earn less from their degree
 - Researchers at the Federal Reserve Bank of St. Louis find that Hispanic (\$68,379 income/\$49,606 net worth) and Black American students (\$52,147 income/\$32,780 net worth) receive less benefit from having obtained a degree than their White (\$94,351 income/\$359,928 net worth) and Asian (\$92,931 income/\$250,637 net worth) counterparts with regard to their 2013 annual median income and median net worth (Emmons and Noeth, 2015).
- Degrees do not Protect Equally
 - Median wealth declined by about 16% among White college-grad families versus a decline of about 33% among White families without a college degree.
 - 72% among Hispanic college-grad families versus a decline of only 41% among Hispanic families without a college degree between 2007 and 2013.
 - Among blacks, the declines were 60% versus 37%. (Emmons and Noeth, 2015)

Why a Fundamental Reconsideration of the Financial Aid System is Needed – But, Free Will not Be Enough

- The unequal return on a degree suggests that strategies that **focus only on college affordability**, even free college, may fail to achieve some of our most cherished aspirations for education to fulfill its role as an antipoverty strategy or equalizer.
 - It also means that where you start off in life matters and whether or not you have assets growing up matters for the types of outcomes you will be able to achieve and for whether education pays off equally for all.
- When it comes to investing in higher education as a path to the American Dream of equitable opportunity for all, then, ‘free’ without asset building may fall to reduce inequality.

Children's Savings Accounts:

Creating an Asset Empowered Path to the American Dream

- Asset Accumulation works for the Rich why not the Poor?
 - Among the top 1% of households, only 39% of personal income is derived from wage income, while 53% of their income is capital income (e.g., business profits, dividends, net capital gains, taxable interest, and tax-exempt interest) (Rosenberg 2014).
- Children's Savings Accounts (CSAs)
 - Universal programs that serve all young people
 - Leverage investments by individuals, families, and, sometimes third parties
 - Initial deposits (sometimes \$25, \$50, \$500, or \$1,000)
 - 1:1 to 5:1 match
 - Sometimes combined with financial education
- Examples of CSA Programs (for more examples see <http://cfed.org/programs/csa/directory/>)
 - SEED for Oklahoma Kids Experiment; Maine's Harold Alfond College Challenge; San Francisco's K2C; Promise Indiana; Nevada's

Potential for Small-Dollar Effects: Beyond Paying Tuition Bills

- Unlike student debt, CSAs have the potential to work on multiple dimensions—early education, affordability, completion, and post-college financial health
- **College Preparation**
 - Builds Parents' Educational Expectations (Kim, Sherraden, Huang, and Clancy, 2015)
 - Children's Educational Expectations (Elliott, 2009)
 - Improved Social Emotional Development (Huang, Sherraden, Kim, & Clancy, 2014)
 - Reduced Maternal Depression (Huang, Sherraden, and Purnell, 2014)
- **College Access**
 - Wilt – a sizable number of minority and low-income children with the will and academic ability to attend college fail to transition to college after high school graduation or to succeed once enrolled.
 - Having savings reduces wilt (Elliott & Beverly, 2011; Elliott 2013)
- **College Completion**
 - Children in low- and moderate-income households (i.e., those that have incomes below \$50,000 per year) who expect to graduate from college and school-designated savings of less than \$500 are about 3X more likely to graduate college than children who only expect to graduate from college (Elliott, Song, & Nam, 2013).

Post-College Financial Health: Return on a College Degree

- Accruing savings as a child is associated with increased likelihood of asset accumulation as young adults. As a result, students may leave college better equipped to pursue important financial goals.
 - Children ages 15 to 19 who have savings are more likely to have a savings account, credit card, stocks, bonds, vehicle, and a home at age 22 to 25 than if they did not (Friedline & Elliott, 2013).
 - The majority of young adults own a savings account at or before the acquisition of all financial products including checking, CD, money market, savings bond, stock, and retirement accounts (Friedline, Johnson, & Hughes, 2014).
- CSAs may be a gateway not only to greater educational attainment, itself a conduit of economic mobility, but also a more diversified asset portfolio.
 - Friedline et al. (2014) find that while owning a savings account as a young adult only contributed \$50 toward liquid assets, the added contribution of combined stock and retirement accounts—themselves products of savings account ownership—was \$5,283.
- This asset building not only stands in sharp contrast to the bleak financial fortunes of heavily indebted recent college graduates; it also may position young adults for significantly improved economic outcomes over their lifetimes.
 - **The Pew Charitable Trust (2013) finds capital income has a strong relationship with moving up the economic ladder.**
- So, by building a more diversified asset portfolio, CSAs may result in increased asset accumulation, which, in turn, may lead to higher odds of moving up the economic ladder.

The Poor Can Save but Only Small Amounts

- Research shows that when lower income families are given access to institutions, such as IDAs and CSAs, they can and do save.
 - IDAs
 - In the American Dream Demonstration (ADD), which tested Individual Development Accounts (IDAs), the average monthly net deposit was \$25.42, with a range from \$16.37 to \$36.89 (Sherraden, Schreiner, & Beverly, 2003).
 - CSAs
 - Research from demonstration programs such as Saving for Education, Entrepreneurship, and Downpayment (SEED) suggests that, on average, families in Child Savings Account (CSA) programs save approximately \$10 per month (Mason, Nam, Clancy, Loke, & Kim, 2009).

CSAs Combined with a Promise

- Given that the poor can only save small amounts, there is also a need for a Promise.
- Example of a Promise Program
 - The Kalamazoo Promise in Kalamazoo Michigan guarantees that students who live in the school district and attend public schools from elementary through high school will receive a grant equivalent to the cost of tuition and fees at in-state public institutions.
- Through the mechanisms of initial seeds and savings incentives, CSAs provide a vehicle to facilitate a Promise to all of America's children.
- Adding the Promise is critical for CSAs to become the antipoverty strategy they have been envisioned to be.

CSAs are a Long-Term Solution, **but we also Need a Short-Term Solution: Bailout**

- A bailout for all households might *increase* the racial wealth gap
 - While eliminating student debt for all households regardless of income increases median net worth for young white and Black households, white families see a greater benefit likely due to a higher likelihood of completing college and graduate degree programs.
- A progressive student bailout policy would dramatically reduce the racial wealth gap among low-wealth households
 - Eliminating student debt among those making \$50,000 or below reduces the Black-white wealth disparity by nearly 37% among low-wealth households, and a policy that eliminates debt among those making \$25,000 or less reduces the Black-white wealth gap by over 50%.
- Note. This comes from directly from <http://www.demos.org/publication/less-debt-more-equity-lowering-student-debt-while-closing-black-white-wealth-gap>

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