

# STUDENT LOANS ARE WIDENING The Wealth Gap: *Time to focus on equity*

BY WILLIAM ELLIOTT AND MELINDA LEWIS





November 7, 2013

# FOREWORD

The Assets and Education Initiative (AEDI) is an office at the University of Kansas's School of Social Welfare (http://aedi.ku.edu/). AEDI's mission is to create and study innovations related to assets and economic well-being, with a focus on the relationship between children's savings and the educational outcomes of low-income and minority children as a way to achieve the American dream.

In today's financial aid landscape, advancing this mission requires attending not only to the role of assets in shaping educational attainment and equity, but also understanding the effects of high levels of student borrowing on the long-term financial health of households. It is our hope that our research on these matters adds to the national conversation about the relative impacts of different approaches to college financing. We believe in higher education as a path to economic mobility and an essential means of sustaining the American dream.

We look forward to imagining, together, how asset-based financial aid can make higher education a more valuable proposition for all of America's students—especially those disadvantaged in the current system—and to discussing how the institution of student loans could be modified to better complement these aims.

With warm regards,

William Stint III

William Elliott III Director, Assets and Education Initiative Senior Fellow, New America Foundation Associate Professor, School of Social Welfare University of Kansas Twente Hall 1545 Lilac Lane, Room 309 Lawrence, KS 66045-3129 aedi@ku.edu (785) 864-2283

#### **ACKNOWLEDGMENTS**

We would like to thank The Hatcher Group for substantive and technical editing, and for its design of this report. It has been a valued partner in pulling together this report.

Finally, this report could not have been completed without the generous support of the Charles Stewart Mott Foundation.

These organizations are not responsible for the quality or accuracy of the report, which is the sole responsibility of AEDI, nor do they necessarily agree with any or all of the report's findings and recommendations.

Preferred Citation

Elliott, W. and Lewis, M. (2013). Are student loans widening the wealth gap in America? It's a question of equity. Lawrence, KS: Assets and Education Initiative (AEDI).

# TABLE OF CONTENTS

# CHAPTERS

Introduction:	Higher Education and the American Dream: Do Student Loans Get in the Way?	7
Chapter 1:	The Damaging Legacy of Student Debt	13
Chapter 2:	Student Debt Damages Household Finances and Widens the Wealth Gap	21
Chapter 3:	Higher Education's Role in Perpetuating Inequality	40
Chapter 4:	Rethinking Financial Aid: Assets for All?	48
Chapter 5:	Policy Discussion: Toward a 21st Century Financial Aid System	57

# TABLES

Table 1.	Even Small Amounts of Savings Can Lead to Higher College Enrollment and	
	Graduation Rates	52
Table 2.	Comparing a Debt-Dependent Financial Aid Strategy to an Asset-Dependent Strategy	53

# FIGURES

Figure 1.	Total Household Net Worth by Student Loan Use	26
Figure 2.	Relative Burden of the Median Change in Total Household Net Worth from	
	2007 to 2009	27
Figure 3.	Median Regression Results Predicting 2009 Total Household Net Worth	
	(Using 2007 Net Worth Percentiles) for Households with Student Loans	28
Figure 4.	Households with a Four-Year College Graduate with Student Loans Have Less	
	Total Household Net Worth than Households with a Four-Year College Graduate	
	and No Student Loans	29
Figure 5.	Total Household Assets by Student Loan Use	30

Figure 6.	Relative Burden of the Median Change in Total Household Assets from 2007 to 2009	31
Figure 7.	Households with a Four-Year College Graduate with Student Loans have Fewer	
	Total Household Assets than Households with a Four-Year College Graduate and	
	No Student Loans	32
Figure 8.	Home Equity by Student Loan Use	33
Figure 9.	Relative Burden of the Median Change in Home Equity from 2007 to 2009	34
Figure 10.	Households with a Four-Year College Graduate with Student Loans Have Less	
	Home Equity than Households with a Four-Year College Graduate and No	
	Student Loans	35
Figure 11.	Total Household Retirement Savings by Student Loan Use	36
Figure 12.	Return on a College Degree among Households with Student Loans Compared to	
	Household with No Student Loans When Considering Retirement Savings	37
Figure 13.	Relative Burden of the Median Change in Retirement Savings from 2007 to 2009	38
ENDNOTES		64

#### REFERENCES

66

#### **INTRODUCTION**

#### HIGHER EDUCATION AND THE AMERICAN DREAM: DO STUDENT LOANS GET IN THE WAY?

#### **OVERVIEW**

Higher education plays a critical role in the U.S. economy, creating a ladder of economic opportunity for American children, especially for those in poverty. However, despite our collective belief in an American dream of equitable opportunities for all, higher education today increasingly reinforces patterns of relative privilege, particularly as students rely more and more on student loans to finance college access. As borrowing reduces the return on a college degree—by failing to support strong educational attainment and by compromising post-graduation financial security—the inequity of our financial aid system is laid bare. By investing in student borrowing to the exclusion of asset-based approaches with the potential to deliver superior outcomes, we jeopardize the legitimacy of the American dream.

Reimagining financial aid to include asset accumulation for those currently disadvantaged has the potential to meet one of our most critical challenges: equipping enough students to succeed in college education to power future societal economic prosperity, at a cost individual students and our collective economy can afford. This report challenges current assumptions about the innocent nature of student loans and proposes asset-based complements that could transform higher education into an institution of equitable opportunity and a foundation of a revitalized American

#### STUDENT LOANS: UNDERMINING THE AMERICAN DREAM

According to Shapiro, the American dream "is the promise that those who work equally hard will reap roughly equal rewards" (Shapiro, 2004, p. 87); that is, the American dream holds that this country is a meritocracy where effort and ability are the primary determinants of success. Gilens found that 96% of Americans agree with the assertion, "People should take advantage of every opportunity to improve themselves rather than expect help from the government" (Gilens, 1999, p. 35). Underlying these statements is an assumption that opportunities exist for all Americans, that institutions treat each person roughly equally, and that the role of the individual is to take advantage of opportunities that he or she creates or that present themselves. These beliefs are powerful, having led over time to Americans' preference for policy approaches that heavily emphasize individual responsibility for risk, rather than shared investment. Because people maintain their belief in the American dream, they resist institutional explanations for variations in individual outcomes, though the evidence points to widely varying outcomes by group.

#### Education as a Path for Achieving the American Dream

Maintaining the belief that everyone in America has an equal opportunity to achieve financial success is essential to having an energized workforce, the backbone of any economy. Policymakers have long recognized this. Indeed, federal attempts to expand opportunity stretch back at least to the Homestead Act of 1862, which granted land to settlers willing to make a life for themselves on the American

frontier. Since the beginning of the 20<sup>th</sup> century, education has become a locus for this emphasis on opportunity, through expanded support for public schools, colleges, and universities, and eventually government subsidies to access higher education (see, e.g., Hochschild & Scovronick, 2003). This distinctly American conviction—that economic disparity can be narrowed through effort in school and the pursuit of higher education—runs deep: "Of all the truths that this generation of Americans holds self-evident, few are more deeply embedded in the national psyche than the maxim, 'It pays to go to college." (Elfin, 1993).

Researchers find that almost all students aspire to attend college (94%), and most parents (96%) want their children to attend college (Horn, Chen, & Chapman, 2003). A 2012 Sallie Mae/Gallup Poll showed that about 80% of children in 2012 strongly agreed that college is an investment in their future.

This belief in the potential of education to act as an equalizer is supported by research, which consistently shows that a person who attains a four-year college degree earns more than a person who does not attain a four-year degree. A four-year college graduate's median earnings in 2008 were \$55,700 compared to \$21,900 for a high school graduate (College Board, 2010). Even for those who do not graduate, having some college appears to pay off. Adults with some college have median after-tax earnings that are 16% higher than those with only a high school diploma. Carnevale, Rose, and Cheah (2011) found that, over his or her lifetime, an adult with a high school degree earns \$1,547,000 while an adult with a four-year college degree earns \$2,268,000.

This college wage premium does not function equitably, however. Not surprisingly, women and racial minorities earn less than White men at all levels of educational attainment. For example, a woman with a four-year degree on average earns about 25% less than a man with a four-year degree over the course of their working years. (The type of degree also matters, particularly in today's increasingly specialized economy. An adult with a master's degree earns about \$2,671,000 while an adult with a doctoral degree earns about \$3,252,000 over the course of their working years (Carnevale, et al., 2011).)

Despite unequal distribution of the gains, attaining a college degree continues to be one of the few remaining paths out of poverty in America. For instance, Urahn, Currier, Elliott, Wechsler, Wilson, and Colbert (2012) found that 47% of children born in the bottom family income quintile remain in the bottom quintile as adults if they do not earn a college degree. In contrast, only 10% of those children born in the bottom family income quintile with a college degree remain there as adults. Children who are born into the bottom family income quintile and attain a college degree are as adults three times more likely to make it to the top family income quintile, and four times more likely to move from the bottom family wealth quintile to the top, compared to those poor children who do not earn college degrees. In an era of declining economic mobility, a college degree appears the surest way to climb the ladders of opportunity.

#### Student Loans Perpetuate the Status Quo

Though they have played an important role in expanding access to higher education, growing evidence suggests that student loans may be a major contributor to the inequitable distribution of gains from college. Though student loans, and the prevalence of student debt, are everywhere in today's political dialogue, the discussion is narrow, more focused on making more loans available, more cheaply, rather than assessing the overall value to society of using loans as the *primary* tool of higher-education financing.

Do student loans facilitate the equalizing role that higher education is meant to play in the United States? A sizable number of minority and low-income children work hard at school and have the ability to attend college, but fail to transition to college after high school graduation or to succeed in college once enrolled. For example, about 52% of low-income and 82% of high-income children enrolled in a two-year or four-year college immediately upon graduating high school in 2010 (Aud et al., 2012). Even bigger gaps exist when considering college graduation rates. Bailey and Dynarski (2011) found that children from high-income families are six times more likely than children from low-income families to complete a bachelor's degree by age 25.

We have collectively failed to imagine how to structure opportunities for low-income and other disadvantaged students to create levers for meaningful college access and equitable returns on their educational investments. Research is beginning to connect these outcomes to student debt. Findings suggest that debt of even small amounts may depress graduation rates (Dwyer, McCloud, & Hodson, 2012) and harm post-college financial health (Elliott & Nam, 2013a; Hiltonsmith, 2013). Further, there is little reason to believe that the availability of student loans has a positive effect on students' preparation for college; in fact, low-income students who are loan-averse may decide not to enroll in college in order to avoid debt (Callendar & Jackson, 2005). Other highly qualified low-income students may decide to underinvest in their human, social, and cultural capital by enrolling at a two-year college or a less selective four-year college in an ill-informed cost reduction strategy (Carnevale and Strohl, 2010). Some field evidence suggests that students facing the prospect of considerable debt may even be steered toward these colleges by high-school personnel such as teachers and counselors, even though the prospects for graduation are worse at these less-selective institutions (Elliott, 2013d). This might be why research consistently finds, at best, weak evidence that student loans positively affect college enrollment rates (Heller, 2008).

Moreover, student loans do not seem to maximize the post-graduation return of a college degree. With an average debt now in excess of \$26,000 (Fry, 2012), college graduates have been shown to delay investments in wealth-building assets<sup>1</sup> such as buying a home (Mishory & O'Sullivan, 2012). There also is an emerging body of evidence that suggests that college graduates who have outstanding student debt have less net worth, home equity, and retirement savings than students who do not have outstanding student debt (Elliott & Nam, 2013a; Elliott, Grinstein-Weiss, & Nam, 2013a; Elliott, Grinstein-Weiss, & Nam, 2013b; Elliott, Grinstein-Weiss, & Nam, 2013c; Hiltonsmith, 2013).

These post-graduation disparities have been largely ignored because the question about student loans until now has been, "Are students who would not otherwise be able to pay for college better off having gone to college than they would be if they did not go?" Evidence is clear that college completers from all groups are better off than non-completers. However, framing the discussion this way assumes that student loans are the primary financial aid strategy available, setting up a counterfactual of failing to attend college. Instead, we should imagine a college degree obtained through other mechanisms, such as savings, with complementary structures to support college success and avoid the pitfalls of a debtdependent financial aid system.

### USING CSAS TO ENHANCE EQUITY IN THE FINANCIAL AID SYSTEM

Missing from today's proposals for fixing financial aid—forgiving loans, lowering interest rates, increasing tax credits, or tuition guarantees—is an accounting of the one lever that simultaneously

improves college affordability, readiness, completion, and financial health in adulthood: children's financial assets. *Building Expectations, Delivering Results*, the first in a series of biannual reports on the assets and education field that was released in July 2013 (Elliott, 2013a), synthesized a wide body of research on the potential for CSAs to transform the way that students pay and prepare for college and, in turn, to help to restore the promise of the American dream.<sup>2</sup> In their simplest form, CSAs are savings accounts that incentivize long-term investments, such as education, home, business ownership, and retirement. The research base is still evolving, but CSAs appear to be evidence-based vehicles for improving students' outcomes prior to, during, and after college. Because of the significance of educational attainment for redeeming the American dream, CSAs can also be thought of as an investment in the viability of this promise to the next generation.

Inserting assets into the financial aid conversation is more than an academic exercise. While it is unlikely that the U.S. approach to financing higher education will shift immediately or seamlessly to an assetbased one, there are very real policy implications to these innovations. A national implementation of CSAs need not be costly for children, their families, or the government (Cramer, 2006). Moreover, Elliott, Song, & Nam (2013a) find evidence that even having a few hundred dollars in savings designated for education is significantly associated with a child's educational outcomes: low- and moderate-income students with up to \$500 designated for college are three times more likely to enroll and four times more likely to graduate from college than their peers with no savings for college. This suggests that, if a fraction of what we spend today subsidizing student loans was reallocated for universally available and progressively funded CSAs, the United States may realize superior educational outcomes and, in turn, increase the chances a disadvantaged child has to move to economic security. Critically, while higher education is largely viewed today (through the lens of individual effort leading to individual gain) as an investment with a localized payoff, the reality of higher education as a collective benefit makes these questions imperative ones for U.S. economic policy, too.

Understanding how and why assets affect student achievement is key to building the political will to create CSA structures capable of delivering these educational outcomes. Enhancing CSAs builds on more than a decade of research showing that for students to achieve their potential, institutions around them need to support their use of effort and ability in school, which Elliott and Sherraden (2013) call institutional facilitation. Institutional facilitation is built on the realization that in today's highly specialized and technical society, institutions augment our use of effort and ability in ways that can create artificial winners and losers, a process in conflict with the ideal of the American dream.

Of course, when we are talking about students whose aspirations to attend college after high school graduation wilt before they make it to enrollment (ACSFA, 2010; Elliott, Song, & Nam, 2013b) or students whose likelihood of college graduation is compromised by the strains that accompany high dollar debt (Dwyer, et al., 2013), the stakes are high. When these differential outcome effects are multiplied across an entire generation, this question becomes one of the most urgent of our age: how to prepare enough students to succeed in higher education at a cost reasonable to individuals and the economy as a whole.

Ownership of financial assets provides individuals with capacity to participate and hold accountable the institutions that affect their lives. When we provide children with assets, we are essentially providing them with the power to access and command societal resources needed to reach the American dream, as well as their full capacity as tool builders for the next generation. The opposite would also have to be true,

of course. When we do not provide children with access to individual assets we are essentially denying them command over societal resources they need to reach the American dream and their full capacity. When students graduate college with significant obstacles to future asset building, they are likely to interact with institutions—the housing market, the job market, financial institutions—differently. When children do not reach their full capacity, not only do they lose, society also loses.

The underlying message is that low-income and minority students are disadvantaged, not because of innate capacity limitations or lower aspirations, but because they often encounter institutions that do not—or cannot—provide them with the resources they need to complement their efforts and amplify their abilities. Do not be mistaken: asset approaches are not entirely absent from college financing. Wealthy students benefit from their parents' ability to signal early and often that college is likely, and significant tax advantages augment these families' capacity for building wealth to spend on their children's education. This results in an asset advantage for these students. The institutions in these children's lives—their parents, financial institutions, often their schools—augment their efforts and ability and send the message that college is part of their futures. This affects their expectations and, in turn, their achievement.

CSAs, then, are a powerful tool for equity. By giving families savings incentives and building universal and progressive vehicles for saving, CSAs may improve the financial health of low-income families and the educational outcomes of their children, reducing or even eliminating asset advantages currently enjoyed by wealthier families. Critically, these are features missing from our just-in-time, debt-dependent higher education finance system, which generally prioritizes simple access over success.

# CONCLUSION

In this report, we suggest that the student loan program can be more effective if it is combined with a college savings program that starts at a very young age, maybe even as early as birth. From this perspective, saving should be seen as a type of down payment on college, not a way to finance college entirely or to eliminate student loans. There are analogues to the way Americans purchase other expensive items, such as a home: individuals may rely on gifts or inheritance from their families (analogous to scholarships), individual earnings (student work programs), savings (school savings), and credit (student loans). Previous research on home ownership teaches us that people who can rely more heavily on gifts and their savings receive a higher return on their home than people who have to rely more heavily on credit (e.g., Shapiro, 2004). We suggest financing college is no different; that is, student loans are likely to have their most powerful positive effects when they are coupled with scholarships and savings.

We end by presenting a picture of a 21<sup>st</sup> century financial aid system. For higher education to play its traditional equalizing role, students may need school savings to address the long-term challenge of college readiness, particularly for those disadvantaged as a result of their interactions with other institutions. With savings set aside for higher education, children may be more likely to identify as college-bound and their parents may increase their engagement with their children's schooling. Colleges and universities may improve completion rates and recruitment of talented low-income students, increasing these institutions' ability to graduate a diverse, well-qualified workforce and to support students' progress toward greater economic security. Banks may receive new customers as more families save and more students build a foundation of economic security. Students may graduate with stronger financial well-being, better positioned to contribute productively to the overall economy. And U.S. policymakers concerned about our ability to compete with other nations will see improvements from a financial aid system better equipped to usher students into productive roles in the global workforce.

An asset-based approach to financial aid is a commonsense solution to the student debt and college completion challenges facing our nation. More importantly, our situating of education as a critical path to economic security and mobility suggests that equitably introducing assets into the college financing landscape may also be a way to make the American dream a reality for more of America's children.

### **KEY POINTS**

- Public education has been central to Americans' belief in the power of effort and ability to improve individuals' circumstances.
- Higher education is today correctly viewed as the primary path to economic mobility, but increasing inequality in educational outcomes is eroding this relationship and threatening young people's future prospects.
- The evidence points to over-reliance on student borrowing as a part of the story for why there is stagnation in college outcomes and a wide gap in achievement between low- and high-income students today.
- While Americans largely view student loans as a question about whether the student is better off, after borrowing for college, than she would be without attending college, another important question, is whether two similarly situated students can realize equitable returns on their educational investments.
- Children's savings accounts can be a tool with which to increase equity in higher education.
- Building the political will for this shift in how policy helps students prepare and pay for college will require accurately accounting for the effects of student loans on educational outcomes and post-graduation financial well-being.
- The national conversation needs to account fully for inequities and focus on maximizing the collective returns of higher education.

### CHAPTER 1

#### THE DAMAGING LEGACY OF STUDENT DEBT

#### **OVERVIEW**

Public education, including higher education, is still a primary policy priority for most Americans, seen as a critical investment in economic opportunity and fundamental equity. However, ongoing state budget cuts and rising college prices threaten college access and hollow out the American dream. As public support for institutions of higher education has waned, more American families often confront high college costs equipped with little more than expensive student loans. Conventional wisdom—and much of U.S. policymaking—holds that student loan debt is a sound investment in students' educational and economic futures, on the individual and aggregate levels. However, research shows that students do not rationally calculate their student debt as a financial investment and instead may hurt their own future economic security by taking on too much debt. Some students, mostly low-income or minority, are averse to large loans and may even forego college altogether. By critically examining this prevailing view of student loans as keys to educational attainment, the failings of this financial aid system are highlighted and the potential benefits of pivoting to a system at least somewhat supported by asset approaches are illuminated.

#### DECLINING COLLEGE AFFORDABILITY YIELDS DEBT DEPENDENCE

Declining state funding and stagnant household incomes are rapidly eroding the affordability of college, leaving Americans seeking to improve their futures through education mired in debt. These trends threaten to deepen disparities in educational attainment and financial health by race and class, and to undermine higher education's traditional role as a vehicle for social mobility.

The rising financial burden represented by a college education is widely acknowledged, but the extent of the trend bears repeating. The College Board (2012), which produces an annual report tracking college costs, estimates that the total cost of college attendance and room and board at an in-state, public four-year college for the 2012–13 school year is \$8,655, an increase of 4.8% from the prior school year and a continuation of trends of nearly uninterrupted cost increases over the past several years. Total cost of a private four-year college also rose, by 4.2% in 2012–13 to \$29,056 (College Board, 2012).

Stagnant wages have meant that tuition and other cost increases hit families harder than they did in the past. Recent findings indicate that median annual household income in June of 2013 is 6.1% (or \$3,400) below its level in December 2007 when the Great Recession began (Pear, 2013). Geiger and Heller (2011) report the price of attending a four-year public college or university has grown significantly faster than the growth in median income over the last 20 years. More specifically, they find that tuition prices at a public four-year college as a proportion of median income rose from 4% in 1980 to 12% in 2009. At private nonprofit four-year colleges the rise in costs as a proportion of median income has been even greater, from 18% in 1980 to 44% in 2009.

Increased college tuitions have not happened in a vacuum. Rather, rising college costs are driven in part by decreased state funding for colleges and universities and exacerbated by financial aid that has failed to keep pace with cost increases (Long, 2010), both factors largely out of the control of institutions of higher education. 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, et al., 2013).

Rising college prices, then, have taken the place of taxpayer-funded state support (Geiger & Heller, 2011) in balancing the books at institutions of higher education—prices that are increasingly untenable for the consumers of higher education. According to Geiger and Heller (2011), in 1980, student tuition accounted for about 20% of major universities' operating funds, but by 2006 it had more than doubled to 43%.

These trends have resulted in a de facto privatization of higher education, even at public institutions. A corollary development is an increasing assumption that paying for higher education is an individual, not a shared, responsibility, the ramifications of which we will explore next.

# The College Cost Burden has Shifted

Dependence on student loans as a way to pay for college has risen, at least in part, because of the shift in financial aid policy over the last several decades toward greater responsibility for individuals to bear the cost of higher education. If higher education is indeed primarily a commodity to be purchased by individual customers, it might be suggested that students should bear much of the cost of education. And they do, now more than ever.

It was not always this way. For instance, Geiger and Heller (2011) found that federal, state, and private grants were the largest form of financial aid until 1982, when loans began to outpace grants and the expectation that needy students would bear most of the burden of college costs solidified. Since then, loans have remained the largest form of financial aid available to students to pay for college (Geiger & Heller, 2011). Fry (2012) found that 40% of all households headed by individuals younger than 35 years of age have outstanding student debt. Further, the proportion of undergraduate students who took out federal loans increased from 23% in 2001–2002 to 35% in 2011–2012 (College Board, 2012). Not only are more students borrowing, but borrowing students are also borrowing more. According to Fry (2012), the average outstanding student loan debt in 2007 was \$23,349, and it rose to \$26,683 by 2010.

This borrowing adds up. Total borrowing for college hit \$113.4 billion for the 2011–2012 school year, up 24% from five years earlier (College Board, 2012). As a result, households are faced with ever-growing debt. In the 2011–2012 school year, about 37% (\$70.8 billion) of all undergraduate financial aid received came from federal loans (College Board, 2012). The next highest source of aid was federal Pell Grants at 19%, followed by institutional grants at 18%. As discussed below, while this student loan debt has significant effects for individual students and their families, the prevalence and depth of debt have real macroeconomic implications, as well.

Finally, research shows that student debt makes up a larger portion of household income among households in the lower income brackets than it does for those in higher income brackets. For example, Fry (2012) found that outstanding student loan debt represented 24% of household income for households with income less than \$21,044 in 2010, 7% of income for households with incomes between \$97,586 and \$146,791, and 2% for households with incomes of \$146,792 or higher.

### Student Debt Affects Even Older Americans

As costs have shifted to individual students and their families, so, too, have the risks of exposure to these economic forces. As a result, many observers fear that today's young people will pay a real price for state budget decisions made during the Great Recession for years into their futures (Isaacs & Healy, 2012). However, rising student debt affects Americans of all age ranges. According to Federal Reserve Bank of New York (FRBNY) data, those younger than 30 make up the largest group of student loan borrowers (about 39%, or 15 million individuals), but other age groups are almost as big. Those 30-39 are about 28% (10.9 million) of total borrowers, 40-49 about 15% (6 million), 50-59 just over 12% (4.7 million), and the over 60 category makes up nearly 6% (2.2 million). This adds up to 38.8 million Americans with student loans.

This broadening of the age spectrum is reflective of trends in the cost of higher education, and who attends. As college costs rise, more parents are cosigning on student loans, making them equally liable for repayment and the consequences of default. Moreover, the number of older Americans entering college has been on the rise, spurred in part by continuing weakness in the labor market. In 2010, more than 3.9 million people ages 35 and older were enrolled in college, up 20% from 2006 (Maag, 2012). Students who start college at older ages are closer to retirement, and therefore have fewer years to pay off their student loans prior to reaching retirement age.

Student loans even burden Americans at or near retirement age. According to the Federal Reserve Bank of New York (2012), the average student loan debt for the 2.2 million Americans 60 or older who hold student loans is \$19,521. These students' experiences with student borrowing suggest that repayment difficulties are not a function of age or maturity. Among student loans held by Americans 60 or older, 12.5% were at least 90 days delinquent at the end of 2012. This can lead to garnishment of Social Security benefits for older borrowers. Research from the Department of the Treasury shows that in 2007 there were 60,000 cases where the federal government garnished wages of Social Security recipients. This rose to 115,000 cases in 2012 (Andriotis, 2012).

Delinquency can harm older cosigners, but even without being delinquent, cosigners' responsibility for loan repayment affects their credit, and as such may make it more difficult to qualify for loans for homes or other major purchases. This constrains financial mobility and threatens economic security as middleaged and older Americans strive to build assets and financial stability.

### MISUNDERSTANDINGS ABOUT DEBT DEPENDENCE

The rising tide of educational debt dependence has faced little outrage from the public or policymakers because of misunderstandings about the magnitude of debt necessary to affect educational and long-term outcomes, the way students make decisions regarding borrowing, and the constraints imposed by even small amounts of debt.

### Small Amounts of Debt Have Big Consequences

Studies on the effects of student loans on college graduation rates are mixed, but most evidence suggests that small amounts of student loans can augment students' ability to graduate from college. However, after conducting an extensive review of student loans, Heller (2008) concluded that there is very

little evidence to suggest that loans, in general, improve children's college outcomes. These seemingly conflicting findings may be explained in part because of conflating large and small loan balances, which might have very different effects. Cofer and Somers (2001) suggest that expanding the number and size of student loans is counterproductive and fails to meet the goal of making college accessible to more students, while smaller loan amounts might have positive effects.

The current financial aid conversation needs a more nuanced discussion not about whether student loans have some role to play, but the amount of student debt that should be considered too high. Unfortunately, the limited conversation to date about appropriate debt levels has skewed toward a simplistic analysis of how much students can afford to pay back. Of this body of research, Cofer and Somers state, "For the most part, they concluded that debt is not excessive and that graduates can repay these loans" (Cofer & Somers, 1999, p. 26).

In the same spirit, some researchers contend that the popular media greatly exaggerate the number of students who graduate with high debt (e.g., Kelderman, 2012). Media coverage tends to focus on sensational stories, such as a student who owes more than \$100,000 in student loans (e.g., Sanchez, 2012), a level of debt in the 97<sup>th</sup> percentile of all borrowers (Edmiston, Brooks, & Shepelwich, 2012). Against the backdrop of these stories, the average debt now in excess of \$26,000 in 2012 seems small (Fry, 2012). To some extent, this reflects subtle shifts in the national conversation about student borrowing, reflective of a norm reset to accept high levels of borrowing.

In response, some researchers have pointed out that many students fail to graduate and that, while students who graduate can afford to pay back their loans, it is much more difficult for those who do not graduate (Cunningham & Kienzl, 2011), given their reduced earning potential. Instead, we suggest that the right frame for examining the reliance on student loans is, "What is the threshold above which student loans no longer augment students' ability to enter and succeed in college and attain similar financial outcomes after college as their counterparts with less or no student debt?" In other words, analysis should examine not only whether students can pay back their loans, but should also focus on the real cost of this borrowing, its effects on equity within higher education, the extent to which it is a wise investment of our collective resources, and what structures could reduce the need for high-dollar borrowing.

While there are some studies that find that student loans have no effect, or even a positive effect, on educational outcomes (e.g., Bowen, Chingos, & McPherson, 2009; Cuccaro-Alamin & Choy, 1998; Lam, 1999; U.S. General Accounting Office, 1995), the preponderance of evidence indicates that as student debt load rises so too do dropout rates, particularly for poor and minority students (The Institute for Higher Education Policy & The Education Resources Institute, 1995; The Institute for Higher Education Policy, 1999; Cofer & Somers, 1999; 2000; Ishitani, 2006; Kim, 2007; Knight & Arbold, 2000; St. Johns, Andrieu, Oescher, & Starkey, 1994; Zhan, 2012; 2013). For example, with respect to race and income level, Kim (2007) found that higher student loan debt in the first year of college is associated with lower probabilities of graduating from college among low-income and Black students but not high-income and White students. This might be because low-income and Black students are averse to taking out high amounts of student debt (Fenske, Porter, & DuBrock, 2000). Higher loan aversion by low-income and Black students might come from having less certain job prospects, less familiarity with financial institutions, and a higher risk of not graduating from college than higher income and White students (Kim, 2007).

Research on student loan thresholds provides us with a clearer picture of what might more realistically be considered high debt. Cofer and Somers (2000) examined whether the influence of debt load on persistence changed between 1987 and 1993. By 1993 student loans had become the dominant method of financing college and their analysis finds positive correlations of loans with college graduation at both public and private colleges in 1987 and 1993. But the picture changes when they examine different thresholds: they find that in 1987 medium debt (between \$3,000 and \$7,000) at public colleges reduces chances of graduation, and in 1993 low debt (less than \$3,000) is a negative predictor but not high debt (over \$7,000). However, in the case of private colleges, in 1987 high debt reduces chances of graduation and in 1993 all levels of debt are negative predictors of college graduation. They suggest that the threshold method is superior to the total debt load method because,

...rather than being incremental, the effect of debt is felt in lump sums. That is, a student borrows in a lump sum...at the beginning of the semester. When the next semester begins, the student has to again make a decision to persist based, in part, on this new, higher level of debt. Students view threshold levels as intimidating, especially when they move from one perceived level to another. (Cofer & Somers, 2000, p. 35)

At the same time that debt is accumulating, students also are learning more about their career opportunities and potential future earnings, which may make college seem like a bad investment (Kamenetz, 2006). These effects bolster the argument that overreliance on student borrowing may be a particularly concerning development in today's economy, given the impact of the recession on the earnings trajectory and employment rates even of college graduates (Shierholz, Sabadish, & Finio, 2013).

Dwyer, McCloud, and Hodson's (2012) findings might be interpreted as suggesting that \$10,000 is a critical debt cut-off point among some students who attend public universities. The reason for the diminishing positive benefits of student loans might be in part because of low-income and minority students' aversion to taking on large amounts of debt to pay for college. For example, prior research suggests that because of low-income students' aversion to borrowing, student loans may be a more effective strategy for middle- and high-income students (Campaigne & Hossler, 1998; Paulsen & St. John, 2002). Similar findings exist with regard to race. Perna (2000) found that student loans have a negative effect on enrollment at a four-year college for Black students, which she attributes in part to an aversion to borrowing. This effect may also help to explain depressed graduation rates, as financial pressures weigh upon students and distract them from academic priorities.

In sum, research suggests that after a certain threshold, student loans might not produce increased enrollment and graduation rates. Therefore, for the less advantaged students who disproportionately rely on loans to finance their college degrees, simply continuing to increase borrowing limits might decrease educational equity. And research shows that what constitutes dangerous, high-dollar debt is potentially smaller—\$3,000 to \$10,000, although the specific amount is not clear—than many believe. Debt also seems to be worse for students in public school than it is for students in private schools.

### Students Lack Necessary Information about Loans

Another common reason for complacency about rising student debt is an assumption that students make rational cost-benefit calculations in deciding to attend college or persist to graduation (Becker, 1993; McDonough, 1997). There is reason to doubt this assumption. For example, while Dwyer, McCloud, and Hodson (2011) found that student debt is positively associated with students' self-concept and sense of

mastery during college and shortly after (ages 18 to 24 and 25 to 27), they find it has negative effects on older young adults' (28 or older) self-concept and sense of mastery. They suggest students may mentally adjust their expected lifetime earnings upward based on access to student loans. That is, students rationalize their debt based on inflated expectations of future earnings. The dynamic of students inflating their estimates of future earnings is based on a well-established body of marketing research. For example, Somon and Cheema (2002) found empirical evidence that people (both poor and rich) do not have the cognitive capability to determine the right ratio of debt to future earnings.

Currently, there are lifetime limits on subsidized and unsubsidized Stafford loans that allow students to accumulate large amounts of debt, even when such borrowing is disproportionate in relationship to reasonably expected earnings.<sup>3</sup> In academic year 2007-2008, 53% of students who took out loans took out the maximum amount they could for the year (GAO, 2011). Deciding how much student debt to incur based on expected future earnings is made more complicated because students do not have to begin paying back student loans until after they leave college. Given this, student loan debt might seem less real to them and its costs harder to calculate (Simpson, Smith, Taylor, & Chadd, 2012). This is perhaps particularly acute for students whose household economic circumstances have denied them sustained and meaningful opportunities to experience money management and make financial decisions (Avard & Manton, 2005; Jump\$tart Coalition for Financial Literacy, 2006; Simpson et al., 2012) and who have less familiarity with the earnings trajectories of their future professions. The aggregate economic effects of so many students borrowing so much money are still unclear, but it is likely that growing doubt about whether college will be worth it for students facing steep bills and uncertain job prospects contributes to the perception of a student debt crisis.

There is also reason to doubt whether students have enough information to make accurate predictions about whether they will complete college and how much they will actually earn after graduating with a particular degree (Carnevale, Stohl, & Melton, 2011). As a result, students may end up financially overextended and unable to approach their next financial challenges successfully, including building assets through homeownership, preparing for retirement, and saving for their own children's education. Sadly, during a period of constrained wage growth and increased unemployment, such as experienced during the last recession, these imprecise calculations are potentially devastating.

#### **Student Loans Constrain Credit and Future Choices**

Upon leaving college, young adults' annual earnings are generally lower than what they will be after they reach their prime earning years during middle age. Further, in most cases, young adults cannot rely on their parents to bridge the gap between current and future earnings by giving them the money they need to purchase big ticket, wealth building assets, such as a home. This is particularly true for the young adults more likely to have relied on student borrowing to finance their higher education in the first place: those whose parents lack the wealth from which to subsidize their children's capital development. Therefore, most young adults rely on credit as a key mechanism for smoothing out their consumption (Oliver & Shapiro, 1995; Keister, 2000). In this sense, credit functions as a tool for building wealth for many Americans. The life cycle hypothesis of student debt assumes that there are few or no constraints on credit, and that individuals, even those with lower incomes, upon graduating from college are able to borrow against future earnings to purchase large ticket items that require considerable financial investment. However, to the extent to which carrying outstanding student debt compromises graduates' ability to successfully navigate the credit market for asset purchases, the functioning of this market may serve to deepen inequality rather than to help graduates build sound financial futures.

Despite the notion that there is a perfect credit market, there is evidence to suggest that credit constraints can, in fact, force young adults with outstanding student debt to delay purchasing a house or to purchase it at a much higher interest rate in the subprime loan market, potentially introducing another source of inequality into the housing market. For example, Mishory and O'Sullivan (2012) found that the average unmarried student debtor would have to pay close to 50% of his or her monthly income toward student loans and mortgage payments. As a result, the student debtor would not qualify for a Federal Housing Administration loan or many private housing loans (Mishory et al., 2012). Given this, credit constraints as a result of outstanding student loans may represent a source of substantial debt effects on post-college outcomes not accounted for by the traditional life cycle hypothesis.

Credit constraints are not the only potential explanation for the poorer asset accumulation performance of indebted graduates, however. In one of the few studies to examine the potential negative effects that student debt has on college goers' ability to accumulate wealth, Shand (2007) finds that student debt has a negative effect on home ownership rates. However, she finds little evidence to suggest that this loss is the result of credit constraints: The presence of student loans on a household's balance sheet does not render a household unable to obtain a mortgage. Instead, she suggests that households with outstanding student debt might be averse to taking out a mortgage for a home because they already feel heavily indebted because of student loans. For example, Hira, Anderson, and Peterson (2000) found that students with high debt report that the size of their loan repayments affects their decisions to buy a car or a home.

In sum, some students with outstanding student debt may face real credit constraints that keep them from investing in assets such as buying a car or a home or opening retirement accounts. When they do make major asset acquisitions, they may face disadvantageous loan terms. Others may not actually be constrained from using credit to invest in assets, but their perception of their debt constitutes a barrier to taking on additional debt. Whatever the explanation, these indebted students fail to invest in assets early in their wage-earning years, stunting their wealth accumulation.

# DEBT DEPENDENCE IS AN EQUITY ISSUE

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 & Strohl, 2010, p. 83). Thus, the stakes are high for properly financing and administering higher education, given its outsized function in our economy and our collective identity.

Many Americans see taking out a student loan as an investment that supports long-term achievement (Cunningham & Santiago, 2008). Student loans are seen, then, as a sort of down payment on the American dream, a necessary price to pay for access to promising employment opportunities. From this perspective, all that matters is that the student who goes to medical school, for example, earns more over a lifetime than if he or she did not attend.

However, if higher education is to fulfill its role as a vehicle for equity, it must offer more than just better outcomes for graduates than they would achieve had they not attended college. A college education should offer to all graduates similar opportunities to achieve financial success in the long run. High student debt loads may hinder this goal, with real costs for students' balance sheets that weaken the ability of education to act as an equalizer, especially because some populations of students are more likely to rely on loans. Additionally, the financial aid system's emphasis on borrowing may, itself, discourage some groups of potential students from enrolling in college at all, thus blocking educational progress rather than facilitating it.

Because some groups of students are far more likely to rely on debt to finance college than others, with long-term consequences for their financial health, outstanding student debt may be a path through which inequality enters the education system, the housing market, and other avenues for wealth creation. Accordingly, with respect to children who graduate from college, inequality is two students investing similar levels of effort and ability in college yet achieving dissimilar outcomes upon graduating. For example, if two students graduate from the same college and become doctors, one with outstanding student debt and the other without, and the doctor with debt accumulates less wealth because he or she has to delay buying a home or is forced to buy a home at a higher interest rate, this is yet another way that inequality is introduced into the education system and, by extension, the U.S. economy.

In sum, if high student debt levels reduce the odds for graduation and future asset accumulation, then higher education's equalizing role is endangered. If the education system ceases to provide the opportunity to achieve equal outcomes, it could eventually constitute a major disincentive for Americans of all ages to pursue education or, for some, even to pursue employment.

#### **KEY POINTS**

- Geiger and Heller (2011) report that the price of attending a four-year public college or university has grown significantly faster than the growth in median income over the last 20 years, rising as a proportion of median income from 4% in 1980 to 12% in 2009.
- Nationwide, states spent 28% less on higher education in 2013 than in 2008, and these cuts can be directly correlated with increases in tuition and other fees as well as reductions in educational quality (Oliff, et al., 2013).
- Student borrowing and student loan balances are increasing for older Americans, as well as for young people. According to the Federal Reserve Bank of New York (2012), the average student loan debt for the 2.2 million borrowers age 60 or older is \$19,521.
- Research shows that student debt might begin hindering educational progress at levels considerably less than the average (\$26,500) graduate accumulates today on the way to a degree.
- Evidence suggests that students are largely unable to make accurate calculations about their student loans in relation to future lifetime earnings.
- Furthermore, there is evidence that having student loans makes it less likely students can begin to build assets shortly after leaving college.
- Student loans may be more likely to support educational attainment when coupled with other financial aid supports, such as scholarships, grants, or children's savings accounts (CSAs).

#### **CHAPTER 2**

#### STUDENT DEBT DAMAGES HOUSEHOLD FINANCES AND WIDENS THE WEALTH GAP

#### **OVERVIEW**

Reviewing the data regarding effects of student debt on students' financial outcomes following college—whether successful graduation or premature exit—makes clear that there is a price to pay for having to borrow money to go to college. Indebted college graduates have lower net worth, less home equity, and compromised ability to accumulate assets, as compared to their peers with the same level of education but no student debt. Especially given the relationship between household wealth and children's educational outcomes (Elliott, 2013a), these findings about the post-college financial outcomes of indebted students and graduates raise the specter of ongoing, sustained, and cross-generational perpetuation of societal divides. In the United States, higher education is valued not just as a good in itself, but also as a means to the end of greater economic security. Evaluating student loans through this lens underscores the long-term, volatile, and often hidden effects of student loan dependence.

The United States' current debt-dependent, just-in-time financial aid system is premised on a consumption mindset: some children who reach college age need money to be able to pay for higher education. This consumption perspective views student loans as merely facilitators of college completion, with little effect on consumption throughout the life course. This is how most economists studying higher education approach it, as well. Rothstein and Rouse aptly portray the consumption perspective: "student debt has only an income effect—proportional to the ratio of debt to the present discounted value of total lifetime earnings—on career and other post-college decisions" (Rothstein & Rouse, 2011, p. 149). They go on to calculate that \$10,000 in student debt represents less than 1% of the present value of the average college graduate's potential lifetime earnings.

Student debt, however, may have long-term implications for graduates' financial health and financial choices. Minicozzi (2004) found that college graduates with student debt earn more in their first year out of college, but, five years later, are earning less than college graduates without student debt. Similarly, Hiltonsmith (2013) found that while households with college graduates and student debt have higher earnings immediately after leaving college, by the time the graduates reach their 40s their income falls behind that of households with college graduates and no student debt. This may occur because students with loan debt are not able to build assets soon after graduating from college at the same levels as students with no student debt. Then, because assets can be converted back into income (e.g., rent from real estate, dividends from stocks, or interest from bonds) in the future, these indebted students have less income available as they age. In ways that we are still beginning to understand, because assets beget income (and not just the other way around), students with loan debt may start off earning similar amounts as students with no student loan debt but by around age 40, end up earning less.

Students who have college loans may or may not earn as much as students who do not have loans over the course of their lives. In either case, it does not mean that students who borrowed will derive the same level of financial well-being from their earnings as those who did not. The economic perspective largely ignores the important role that assets play in determining financial well-being, and the barriers to building assets created by the presence of student debt.

The consumption perspective is a limited way of understanding financial aid effects and post-college financial well-being. New directions for theory, research, and policy around economic security emerged with the publication of Sherraden's (1991) seminal book, *Assets and the Poor*, which distinguished assets from income in terms of their impact on well-being. According to Sherraden (1991), assets represent an accumulated stock of resources kept through time, whereas income is a flow of resources used for current consumption.

A growing body of evidence shows that assets and income are distinct concepts (Lerman & Mikesell, 1988; Oliver & Shapiro, 1995; Sherraden, 1991; McKernan & Sherraden, 2008). Welfare for the poor has traditionally been defined in America as "the level of money, goods, and services received as income" (Sherraden, 1990, p. 580). However, Sherraden (1990; 1991) challenged this assumption by positing that household welfare—more broadly understood as well-being—is derived in part from the accumulation of assets.

Assets reflect ownership power or control over resources that are stored over time and used for human development, social mobility, and intergenerational transmission of wealth and advantage. In contrast to assets, income is a flow on a family's balance sheet and represents resources earned over a particular span of time, such as a week or month. A household's ability to leverage income for wealth creation varies according to its access to institutional supports that cultivate relative advantage (Sherraden, 1991) or superior bargaining power. For example, Shapiro, Meschede, and Osoro (2013) found that a \$1.00 increase in income later translates to a \$5.00 increase in wealth for Whites, but only a \$0.70 increase for Blacks. Here is it clear that, even if incomes are equal, some people receive greater financial benefits from their income than other groups largely because of structural inequality. The same is true for college debt holders. From this perspective, treating financial aid simply as a consumption problem misses the potential unique effects student loans may have on students' ability to accumulate assets post-college. Thus, even if two college students have the same earnings upon graduating from college, but one has outstanding student debt and the other does not, they may have very different abilities to accumulate wealth, which matters for their post-college financial well-being.

### A BIFURCATED FINANCIAL AID SYSTEM

Like most consumption-based programs in the United States, the higher education financial aid system is also affected, directly or indirectly, by what can be characterized as means testing. For instance, current asset limit rules in most means-tested public assistance programs, such as TANF and Medicaid, create disincentives for low-income families to save for college. Recipients may interpret these rules to mean that savings are a liability that must be spent down or avoided altogether so as to avoid ineligibility.

Like public assistance programs, the FAFSA considers both income and assets when determining the Expected Family Contribution (EFC), which is the basis for calculating aid. This can lead to the perception that savings will reduce the amount of financial assistance a student is awarded, creating a

disincentive to save and to apply for assistance at all, as households may believe that even very small savings will disqualify them for aid (Reyes, 2008). The process also judges more harshly those assets held in students' own names, despite evidence suggesting that it is precisely these dedicated school assets that have the most significant effects on standardized test scores, high school graduation rates, college enrollment rates, and college graduation rates (e.g., AEDI, 2013). There has been some progress, but this progress has not resulted in true equity for disadvantaged students and their families, particularly given the effects of the recession, which pushed more economically vulnerable households to depend on these income supports. For example, as of 2010, 17 states exempted college savings held in 529 plans from financial aid determinations, but these same asset protections are not afforded in the federal financial aid system or to students whose savings are held in the vehicles lower income households are more likely to use for their savings, such as traditional deposit accounts (Clancy, Lasser, & Taake, 2010).

Simultaneous with increasing reliance on debt to pay for college by low- and moderate-income families, a parallel system focused on asset-building has expanded, mostly to the benefit of higher income families. Public investments in educational assets, such as Coverdell Education Savings Accounts, Education Savings Bonds, and, especially, state 529 plans, work through the tax code to provide incentives for families to begin saving for college costs prior to students enrolling in college. Money invested in these types of college savings vehicles grows tax free, and withdrawals made from them to pay for college are also tax free. Not surprisingly, higher income families respond positively to the relatively generous subsidies provided to them through these structures. Ensuring preferential tax treatment of college savings in 529s, for example, had encouraged more than \$179 billion in college savings as of 2012 (College Savings Plan Network, 2012).

Like the welfare system, the financial aid system for higher income families has been largely carved out of the tax code, as a result of the shift from spending programs to tax subsidies. With the exception of increases in the maximum Pell Grant and loan subsidies, most new federal resources have been provided through the tax code. Wealthy students benefit most from these changes because they have a higher marginal tax rate than lower income families; therefore, they receive larger benefits from such programs (Maag & Fitzpatrick, 2004). And there are more subtle ways, even if less talked about, in which higher income students have access advantages within these institutions, like greater access to tax professionals who can help them navigate the benefits and greater household familiarity with financial institutions.

But most low-income families are not using 529 plans or other tax-advantaged savings vehicles to prepare for college. These vehicles are not designed with low-income families' imperatives in mind (Clancy, Lasser, and Taake, 2010), as these families are less likely to owe income taxes and thus to benefit from tax-advantaged accounts. Instead, when they are able to save, low-income families are saving in traditional, non-restricted products such as checking, savings, or similar accounts (Sallie Mae, 2009). All of these accounts are subject in public assistance programs to asset limits, which can be as low as \$1,000, and count against students in financial aid determinations. So, while higher income households enjoy sizable savings incentives through preferential tax treatment of 529s and similar plans, low-income households face what amounts to a steep marginal tax on their savings, with additional dollars in savings costing them dearly in public assistance benefits and, potentially, in financial aid determinations. Thus, differences in asset accumulation for college, while stemming in large part from differences in familial capacity to save, are enhanced by the very different institutional contexts faced by low- and high-income families.

As Oliver and Shapiro (1995) suggest, the inability to pay for school is largely the result of low asset accumulation. That is to say, asset inequality in the current financial aid system does not solely stem from financial aid policies themselves. They also stem from the political and economic context in which they operate—one of extreme wealth inequality.

In much the same way that a bifurcated welfare system was created, so too a bifurcated financial aid system has been created. The financial aid system for lower income students is increasingly centered on helping these students incur debt, while the system for higher income students encourages the accumulation of assets. Given the relationships between educational assets and educational outcomes, when it comes to equalizing educational outcomes and determining children's college paths, this might really matter (Elliott, 2013a). The challenge within financial aid, then, is to construct a system capable of at least partially overcoming the inequities created through other policy structures, so that students can experience higher education as a true ladder to the American dream. This is even more critical in America, where education is seen as the arbiter of economic outcomes, in contrast to Europe, where they rely more heavily on the direct redistributive role of the welfare state (Carnevale & Strohl, 2010).

### THE EFFECTS OF STUDENT LOANS ON WEALTH ACCUMULATION

The last several years have been devastating for the balance sheets of American families. The Federal Reserve's Survey of Consumer Finances finds that average household wealth declined 15% between 2007 and 2010 and has only recovered 45% of its value (Boshara & Emmons, 2013). Because wealth is so unevenly distributed, median declines are even more dramatic; during the same time period, median household wealth dropped 39% (Emmons, 2012). Three-fifths or more of families across all income groups reported a decline in wealth between 2007 and 2009 (Bricker, Kennickell, Moore, & Sabelhaus, 2012), and the typical household lost nearly one-fifth of its wealth.

While most Americans felt the effects of the recession, the pain was not distributed equally. Families that were younger, had less than a college education, or were members of a historically disadvantaged minority group suffered particularly large wealth losses (Emmons, 2012). In 2009, typical net worth stood at \$5,677 for Blacks, \$6,325 for Hispanics and \$113,149 for Whites (Taylor, Kochhar, Fry, Velasco, & Motel, 2011). Some families were vulnerable prior to the recession on a number of levels: overrepresented in low-wage occupations, hampered by low levels of human capital, hindered by the legacy of unsupportive institutions, and heavily leveraged in various forms of debt (Boshara & Emmons, 2013). Disproportionately headed by young adults, these families are less likely to have non-housing assets with which to cushion the blows to the real estate market (Boshara & Emmons, 2013). Throughout their lives, they encounter institutions—a labor market, education system, financial services-less than facilitative of their asset accumulation. Cumulatively, these risks sent them into the recession with little margin for error. The economic crisis the country experienced beginning in 2007 ravaged the small asset stores they had managed to accumulate. Disturbingly, the effects on their own families' well-being and, then, on the nation's ability to fully recover from the recession, may be far from over. Research suggests that they and their children will continue to feel the effects of the resulting economic insecurity for years-even generations-to come, particularly through the effects of asset poverty on human capital accumulation (Elliott, 2013b).

Researchers describe three primary mechanisms through which balance sheet erosion impacts families directly: reduced access to human capital development, particularly college education (Zhan and

Sherraden, 2011); constrained economic mobility (Cramer, O'Brien, Cooper, & Luengo-Prado, 2009), as assets are usually needed in order to accumulate additional wealth and gain access to ladders of economic opportunity; and financial insecurity, as households lack reserves with which to withstand future downturns (Boshara & Emmons, 2013). Net worth provides the foundation for opportunity for the next generation, so the shocks to household balance sheets may ripple far into the future for today's students (Elliott, 2013b).

These balance sheet failures affect not only individual families but also the larger economy. While the precise size of these effects is still being understood, unexpected shocks to families' asset holdings affect household spending in the short and long terms (Case, Quigley, & Shiller, 2013), which is significant given that consumer spending drives most U.S. economic activity (Emmons, 2012). In the specific example of decline in housing wealth during the recession, some economists estimate that consumer spending ended up on a path about 3.5 percent lower in 2010 than otherwise would have been expected, or roughly \$350 billion less than it would have been (Case et al., 2013). These figures suggest that reductions in household wealth may be at least partly to blame for the rather anemic recovery following the recession. Certainly, there is evidence that the U.S. economy cannot easily withstand significant erosion of household balance sheet health.

This evidence adds tension to the policy debate about how to best promote economic recovery, since it suggests that what is best for the economy in the short term, boosting consumer spending, may be in direct conflict with what is in the long-term interest of families: increasing savings (Boshara, 2012). If, as Boshara (2012) suggests, the financial crisis and economic downturn are correctly understood as reactions to family balance sheet failures, then the inadequacy of current policy efforts to build balances for U.S. households—particularly those with lower incomes—deserves serious attention. Emerging evidence of the poor state of student borrowers' post-college net worth, and other measures of student loans' impact on wealth building, should serve as a catalyst for increased attention to savings.

### Post-College Net Worth

While little research to date has examined the specific relationship between student loan debt and the health of household balance sheets (e.g., Hiltonsmith, 2013), there is certainly reason to believe that the economic instability felt by a growing number of American households is exacerbated by rising student borrowing, especially for college graduates, who should be in a stronger financial position relative to their peers. This financial vulnerability is widespread. Almost half of all households surveyed in the 2009 Survey of Consumer Finances (SCF) had less than \$3,000 in liquid savings (Bricker et al., 2012). Nearly half of all Americans consider themselves financially fragile, meaning that they would "probably" (22.2%) or "certainly" (27.9%) be unable to come up with \$2,000 in 30 days to cope with a financial emergency (Lusardi, Schneider, & Tufano, 2011). While a variety of policy changes is needed to reverse these financial trends, including stronger employment policies to increase median wages and better safety nets, these families clearly need to accumulate greater asset reserves so that they can derive lasting economic security from what they own (Boshara, 2012).

As the evidence in this report makes clear, it will be more difficult for most households to achieve that security within the context of a debt-driven financial aid system. If most American students continue to rely on borrowing to finance college, then this generation of young people might be disadvantaged in at least one of two ways as they embark on young adulthood: as an indebted college graduate with a balance

sheet tilting toward negative, or as a young person deterred from college at least in part by the prospect of looming debt.

Elliott and Nam (2013a) found that college debt is another way that the wealth gap is being exacerbated in America. The basic descriptive data tell the story of the potential negative effects of having student debt (see Figure 1). Figure 1 indicates that median 2009 net worth for a household with no outstanding student debt is nearly three times higher than for a household with outstanding student debt. In support of the descriptive findings, multivariate statistics indicate that households with outstanding student loan debt and a median 2007 net worth of \$128,828 incur a loss of about 54% (-\$69,976) of net worth in 2009 compared with households with similar net worth levels but no student loan debt over the same period after controlling for: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.





Source. For detailed information on the methods and analysis see Elliott and Nam (2013a). Note. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

Moreover, when Elliott and Nam (2013a) consider the change in net worth, the relative burden appears to be much greater for households with student debt than without (see Figure 2).



FIGURE 2. Relative Burden of the Median Change in Total Household Net Worth from 2007 to 2009

Source. For detailed information on the methods and analysis see Elliott and Nam (2013a).

Note. This study used 2007–09 panel data from the Survey of Consumer Finance, which was sponsored by the Federal Reserve Board.

Both the median and mean changes in net worth represent a higher percentage of total 2009 net worth for households with outstanding student debt than it does for households with no outstanding student debt. This difference suggests that households with outstanding student debt are more burdened by the negative change in net worth from 2007 to 2009 than households with no student loans.

The negative association with 2009 net worth holds across households at the 15<sup>th</sup>, 30<sup>th</sup>, and the 50<sup>th</sup> percentiles of 2007 net worth after controlling for all other factors (see Figure 3). This finding of a consistent rising negative association remains true for each asset variable tested (net worth, assets, home equity, and retirement savings), though the amounts differ.

FIGURE 3. Median Regression Results Predicting 2009 Total Household Net Worth (Using 2007 Net Worth Percentiles) for Households with Student Loans



Source. For detailed information on the methods and analysis see Elliott and Nam (2013a).

Notes. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board. The analysis controls: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.

However, while the total asset losses are greatest for those with higher net worth, we find that households with less net worth are more burdened by outstanding student debt. While households at the 15<sup>th</sup> percentile with outstanding student debt lost less net worth than similar households at the 50<sup>th</sup> percentile from 2007 to 2009, the loss for households at the 15<sup>th</sup> percentile represents 285% of their 2009 net worth but only 54% for households at the 50<sup>th</sup> percentile. This suggests the increasing student debt burden on households is not equally shared at different wealth levels.

Further, we find that living in a household with a four-year college graduate with outstanding student debt is associated with a net worth loss of about 63% when compared to living in a household with a four-year college graduate with no outstanding debt (see Figure 4).

FIGURE 4. Households with a Four-Year College Graduate with Student Loans Have Less Total Household Net Worth than Households with a Four-Year College Graduate and No Student Loans



Source. For detailed information on the analysis see Elliott and Nam (2013a).

Notes. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board. The analysis controls for: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.

This area of research is relatively new and, indeed, runs counter to conventional thinking about the role and effects of student loans; other analyses confirm these general findings. Hiltonsmith (2013) found that an average student debt load (\$53,000) for a dual-headed household with bachelors' degrees from four-year universities leads to a lifetime wealth loss of nearly \$208,000.

Looking at both sets of findings together suggests that the short-term effects examined here are much more dramatic: over time students with outstanding student debt make up some of the wealth loss. This speaks to the fact that human capital is created by student debt, and graduates can leverage this human capital into earnings and wealth accumulation potential. However, in the end, it appears that they still end up far behind their peers without student debt. Moreover, Hiltonsmith (2013) suggests that students who graduate with average student debt are forced to invest significantly less in retirement savings, or to delay purchasing other wealth-building items like a home, during the early part of their working lives. These early losses may account for much of the wealth inequality seen later in life.

In conclusion, by reducing net worth, outstanding student debt may reduce the financial health of households; however, more research is needed, particularly to examine whether these effects correlate to specific levels of student debt, as well as the precise mechanisms through which these relationships occur, and what protective factors, if any, could interrupt this negative relationship between net worth and student debt.

# Post-College Assets

In this section we focus on the effects that student loans may have on students' asset accumulation. Assets are defined as the sum of savings, checking, money market accounts, certificates of deposit, stocks, bonds, mutual funds, 401(k) plan balances, IRAs, the cash value of whole life insurance policies, and tangible assets such as real estate and cars.

Elliott, Grinstein-Weiss, and Nam (2013a) found that median assets in 2009 for a household without outstanding student debt are higher than for a household with outstanding student debt (see Figure 5). Assets may be an even better gauge of overall financial health than net worth, because they focus on the results of human capital development, rather than counting student debt as a liability, as in net worth measures.

In line with the descriptive findings, multivariate statistics indicates that living in a household at the 50<sup>th</sup> percentile with outstanding student debt and 2007 assets of \$225,035 is associated with a decrease in 2009 assets of \$44,661(a loss of about 20%) compared with a similar household with no student debt after controlling for: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.



# FIGURE 5. Total Household Assets by Student Loan Use

Source. For detailed information on the methods and analysis see Elliott, Grinstein-Weiss, and Nam (2013a).

Note. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

When considering the relative change in assets, the burden is greater for households without student debt (see Figure 6). Whether we examine the mean or median change in assets, change in assets represents a higher percentage of total household assets in 2009 for households with no student debt than it does for households with outstanding student debt. This suggests that households with outstanding student debt are *less* burdened by the negative change in assets from 2007—2009 than households without student loans.

FIGURE 6. Relative Burden of the Median Change in Total Household Assets from 2007 to 2009



Source. For detailed information on the methods and analysis see Elliott, Grinstein-Weiss, and Nam (2013a).

# Note. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

A lower relative burden for households with no student loans is an opposite relationship to what Elliott and Nam (2013a) find for household net worth. We speculate that the different findings could be due to different characteristics of households with and without student loan debt. Households with student loans are younger and less likely to have non-housing assets; homes make up the biggest portion of their asset portfolio (Boshara & Emmons, 2013). That is, their asset portfolio is less diversified and therefore more stable. Moreover, there is not as big a difference in median assets between households with student loans and those with no student loans (see Figure, 5). Therefore, changes in assets affect each group similarly. This will come up again with regard to retirement savings.

Living in a household with a four-year college graduate, outstanding student debt, and median assets in 2007 (\$451,520) is associated with a loss of assets of about 36% compared to living in a household with a four-year college graduate, no outstanding debt, and similar levels of assets (see Figure 7).

FIGURE 7. Households with a Four-Year College Graduate with Student Loans Have Fewer Total Household Assets than Households with a Four-Year College Graduate and No Student Loans



Source. For detailed information on the methods and analysis see Elliott, Grinstein-Weiss, and Nam (2013a).

Notes. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board. The analysis controls for: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.

# Post-College Home Equity

In the United States, even following the collapse of the housing market in the Great Recession, homeownership is the largest asset for all families but the very wealthy (Mishel, Bivens, Gould, & Shierholz, 2013). Mishel et al. (2013) found that home equity made up about 65% of all U.S. wealth in 2010. Evidence shows that owning a home is an important source of wealth for establishing economic well-being across the life course (Oliver & Shapiro, 1995). Homeownership facilitates differential access to opportunities, such as sending children to high-quality primary and secondary schools (e.g., Shapiro, 2004). For instance, Shapiro describes how White middle- and upper-class parents gain an educational advantage by leveraging their homes to assure better educational outcomes for their children in what he refers to as "a narrow, self-interested way" (Shapiro, 2004, p.158). In this way, inequality in the housing market generates differential educational outcomes for children.

Building on Shapiro's argument, student loans are another way that inequality is introduced into the housing market. Indebted students may face greater challenges to building wealth and housing security through homeownership, a disadvantage with intergenerational implications.

Elliott, Grinstein-Weiss, and Nam (2013b) found that median home equity in 2009 for a household without outstanding student debt is 41% higher than for a household with outstanding student debt (see Figure 8). Home equity is defined as home value less all home-secured debt. In line with the descriptive findings, multivariate statistics indicates that in 2007, living in a household at the 50<sup>th</sup> percentile with home equity of \$107,702 with student debt was associated with a drop in home equity in 2009 of \$30,163, compared to a similar household with no student debt after controlling for: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.

# FIGURE 8. Home Equity by Student Loan Use



Source. For detailed information on the methods and analysis see Elliott, Grinstein-Weiss, and Nam (2013b).

# Note. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

When we consider change in home equity, the relative burden appears to be much greater for households with student debt (see Figure 9). Whether we examine the mean or median change in home equity, change in home equity represents a higher percentage of total home equity in 2009 for households with outstanding student debt than it does for households with no outstanding student debt. This may be because households with outstanding student loans have less home equity to begin with, so even small drops make up a greater proportion of their overall home equity than for households with no outstanding student loans. Relative burden is important because it suggests that households with outstanding student debt are more burdened by the negative change in home equity from 2007-2009 than households without student loans.



FIGURE 9. Relative Burden of the Median Change in Home Equity from 2007 to 2009

Source. For detailed information on the methods and analysis see Elliott, Grinstein-Weiss, and Nam (2013b).

Notes. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

For a hypothetical household with median home equity in 2007 (\$107,702), having outstanding student loans is associated with a loss of about 28% in home equity in 2009 compared to a household with similar levels of home equity but no student debt. Living in a household with median home equity and a four-year college graduate with outstanding student debt is associated with a home equity loss of about 40% compared to living in a similarly situated household with a four-year college graduate without outstanding debt (see Figure 10).

FIGURE 10. Households with a Four-Year College Graduate with Student Loans Have Less Home Equity than Households with a Four-Year College Graduate and No Student Loans



Source: Elliott, Grinstein-Weiss, and Nam (2013b).

Notes. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board. This analysis controls for: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.

Again, this suggests that the current reliance on student borrowing, within the financial aid system, reduces the extent to which education can serve as an equalizer within the U.S. economy, since depending on loans to finance college can compromise postgraduate financial health in many ways. To the extent that one institution—student loans—is compromising individuals' abilities to benefit from the existence of another—home mortgage loans and policies incentivizing homeownership—Americans situated differently cannot be said to have truly equitable opportunities.

# Post-College Retirement Savings

The shifting of the retirement burden to individuals, through the decline in employer-sponsored, defined benefit pension plans, has substantial implications for policymakers and average Americans alike. In 2009, only 56% of households held dedicated retirement savings (Bricker et al., 2011), suggesting that many Americans are inadequately prepared to provide for their financial security upon retirement. The absence or low volume of retirement savings may cause people to delay retirement, increase use of public welfare programs, and reduce both consumption and quality of life among those who no longer work. Across generations and throughout the economy, these effects could be significant, as working-age Americans fear becoming financially responsible for aging relatives, and as the powerful older adult consumer bloc faces constrained purchasing power.

Student loans, often thought of as a burden on young people, have impacts that stretch to retirement savings. Elliott, Grinstein-Weiss, and Nam (2013c) found that median retirement savings in 2009 for a household without outstanding student debt is just over two times higher than for a household with outstanding student debt (see Figure 11).

In line with the descriptive findings, multivariate finding indicates that in 2007, living in a household at the 50<sup>th</sup> income percentile with retirement savings of \$47,500 with student debt was associated with a

drop in retirement savings in 2009 of \$19,520, compared to a similar household without student debt, a loss of about 41%. The multivariate analysis controls for: (1) whether any member of the household had a four-year college degree or postgraduate degree; (2) age of the head of the household; (3) occupational prestige; (4) marital status; (5) welfare use; (6) race; (7) health insurance coverage; (8) income; (9) net worth; and (10) outstanding student loans.



FIGURE 11. Total Household Retirement Savings by Student Loan Use

Source: Elliott, Grinstein-Weiss, and Nam (2013c).

Note: This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

Also consistent with the above data, living in a household with student debt that has retirement savings of \$80,983 (50<sup>th</sup> percentile) in 2007 is associated with a 52% loss in retirement savings in 2009 compared to households without student debt (see Figure 13).
FIGURE 12. Return on a College Degree among Households with Student Loans Compared to Households with No Student Loans when Considering Retirement Savings



Source: Elliott, Grinstein-Weiss, and Nam (2013c).

Notes. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

However, when we consider change in retirement savings, the relative burden appears to be greater for households without student debt (see Figure 12). Whether we examine the mean or median change in retirement savings, change in retirement savings represents a higher percentage of total retirement savings in 2009 for households with no student debt than it does for households with student debt. This is different than for what we find for household net worth or home equity, but similar to our findings for assets. In the case of retirement savings, because the total retirement savings among households without student loans is relatively small (\$55,000), change in retirement savings may affect both groups equally. So, a loss of \$5,000 out of either \$55,000 or \$25,000 is a fairly large proportion. Alternatively, unlike a home, which for most people requires taking out a mortgage loan, retirement saving does not require access to credit to invest. Therefore, households with student loans are not constrained (e.g., by a bad credit score) in the same way they might be when buying a home. In the case of retirement savings, it does not matter if individuals are averse to taking out a loan. So, students with student loans may still underinvest in retirement savings in comparison to students with no student loans, though they still invest something.



FIGURE 13. Relative Burden of the Median Change in Retirement Savings from 2007 to 2009

# Source: Elliott, Grinstein-Weiss, and Nam (2013c).

Note. This study uses 2007–09 panel data from the Survey of Consumer Finance, which is sponsored by the Federal Reserve Board.

# CONCLUSION

These findings should not be interpreted as fuel for the debate about whether college is worth the investment for today's young people. Indeed, after controlling for outstanding student debt, our findings provide evidence that a household with a four-year college graduate is associated with having higher household net worth and more assets, home equity, and retirement savings than a household without a four-year college graduate. Higher education still offers a pathway to economic self-sufficiency, if the counterfactual is failing to attend or graduate from college at all.

Our findings do point out disparities in the return on investment experienced by students, largely due to the short-term implications of student loan debt. These findings suggest that, even at relatively low levels, there are dangers to the long-term economic well-being of college graduates and, by extension, the nation. To fully understand these disparities, we need to view our debt-dependent financial aid system through the lens of race, class, and role expectations.

#### **KEY POINTS**

- As in the consumption-based welfare system, the U.S. debt-dependent financial aid model largely ignores the differences between assets and income, thus failing to ensure that financial aid policies not only smooth consumption gaps but also build lasting economic security.
- The United States essentially has a bifurcated financial aid system, with different incentives and sanctions that work to funnel low- and high-income households into parallel tracks. High-income households encounter tax incentives that support their asset accumulation goals, but low-income households face significant penalties in welfare and financial aid programs if they manage to accumulate assets.
- Median 2009 net worth for a household with no outstanding student debt is nearly three times higher than for a household with outstanding student debt.
- Households with outstanding student debt are more burdened by the negative change in net worth from 2007 to 2009 than households with no student loans.
- Asset accumulation, which controls for the omission of human capital from the net worth calculation, shows similar divides: Living in a household with a four-year college graduate, outstanding student debt, and median assets in 2007 (\$451,520) is associated with a loss of assets of about 36% compared to living in a household with a four-year college graduate, no outstanding debt, and similar levels of assets.
- Median home equity in 2009 for a household without outstanding student debt is 41% higher than for a household with outstanding student debt.
- The risk shift from collective to individual responsibility is especially pronounced in the arena of retirement security. Here, in ways that college students would have difficulty foreseeing, median retirement savings in 2009 for a household without outstanding student debt is just over two times higher than for a household with outstanding student debt.
- These post-graduation financial effects reveal that graduating from college cannot erase the impact of this borrowing, and that inequity is pronounced where some students must rely on borrowing while others come equipped with household assets.

#### CHAPTER 3

#### HIGHER EDUCATION'S ROLE IN PERPETUATING INEQUALITY

#### **OVERVIEW**

Role expectations can lead children to act in ways contrary to their own self-interests. Today, these patterns serve to funnel disadvantaged and advantaged students into different institutions of higher education and different paths following high school, with huge implications for economic mobility and security. These role expectations can be modified by changing the consequences of the current financial aid system for lower income students through the creation of children's savings accounts (CSAs). CSAs have the potential to align role expectations with disadvantaged students' best interests.

In today's highly specialized economy, individuals depend on institutions around them to support their effort and ability, which Elliott and Sherraden (2013) call institutional facilitation. Institutional facilitation is the process by which institutional efficacy (a person's perceptions of the extent to which institutions facilitate his or her achievements) promotes healthy self-efficacy beliefs (a positive perception of one's ability to accomplish goals) and the development of positive future identities (Elliott & Sherraden, 2013).

In the case of financial aid, student loans were developed as a tool for augmenting students' ability to pay for college based on their future earnings rather than current collateral or asset holdings. Loans have been successful at augmenting the ability of students who apply and are admitted to college to pay for it. Essentially, society has determined that the payoff from attaining a college degree is high enough, certain enough, and profitable enough that lending money to pay for college to students who could not afford it otherwise comes at an acceptable risk. At the same time, this tool has been carefully crafted, so that society is protected against the risk of default by rules that forbid students from discharging their student loans through bankruptcy and that allow repayment to be collected through such means as garnishing tax refunds or wages.

Further, society makes the investment in student loans as most lenders do, with the expectation that they will be paid back with interest, though at very favorable terms compared to private loans. In fact, the Congressional Budget Office (CBO) reports that the federal government stands to make a profit of \$50 billion from student loans in 2013 (Jesse, 2013). In addition to federal programs, private loans made up \$150 billion of the \$1.1 trillion student loan market in 2012 (Hartman, 2013). Sallie Mae, the nation's largest private student loan lender, reported making \$939 million in net profit for 2012 (Hartman, 2013). Profits from student loans benefit firms other than lenders. The U.S. Department of Education, for example, spent \$1.4 billion to pay collection agencies to track down borrowers who are delinquent or in default in 2011 (Martin, 2012). Therefore, it can be said that keeping students indebted serves a functional purpose in society. This substantial profit creates an incentive structure for some actors, such as the U.S. Department of Education, the U.S. Department of the Treasury, commercial banks such as Salle Mae, and politicians,<sup>4</sup> to act to maintain the current system of financing college and even expand it when possible.

Understanding student loans as profit making provides insight into a way in which the marketization of higher education takes place. This profit also provides an incentive for maintaining student loans and increasing access to student loans as the primary way of financing college. In this sense, the federal government and private companies that have the potential to benefit from the college loan market are likely to act in ways that maximize their goal to maintain or, if possible, increase the number and amount of student loans available, particularly if they can do so in a way that appears to be an altruistic effort to assist low- and moderate-income aspiring college students. However, the federal government and private companies are not the only actors who have a stake in maintaining the existing financial aid model. In the next section we explain how establishing and controlling the role expectations of students maintains this system.

#### THE POWER OF ROLE EXPECTATIONS

Role expectations are socially shared expectations about how a person, as a member of a group, can be expected to act. As such, they specify a role that a person is expected to play in society. Role expectations are based on the historical and contemporary experiences of a particular social group with institutions and institutional resources for achieving desired ends. Role expectations result from a struggle between individuals over the distributional advantage that institutions provide. Not surprisingly, those with wealth are often able to structure role expectations such that they constrain the actions of disempowered groups.

Role expectations for minorities, the poor, and other disadvantaged groups undermine the presumed equality of opportunity represented by the American dream. Nonetheless, Americans of all stripes want to believe that effort and ability are the predominant reasons for success and failure, avoiding explanations that suggest structural inequalities. These inequalities are highlighted in the highly specialized contemporary economy, in which supportive institutions are more important than ever for success. Through this lens, then, we can better understand why there is so little resistance from the poor and minorities to this American dream narrative (e.g., Rank, 1994). But in today's postmodern, highly technological world, effort and ability alone cannot fully explain why one person succeeds and another does not. To maintain a system that gives them a distributional advantage, however, the wealthy continue to overemphasize rules that stress effort and ability while ignoring the role of institutions, even though institutions play a crucial role in determining success.

This American ideal that individual outcomes closely correlate with effort is so widely accepted that "redistribution" (i.e., giving the poor a growing share of the economic pie) has become a slanderous word in American public life. The inability to discuss redistribution is a serious barrier to increasing equity in the U.S. economy. The only way to change disadvantageous role expectations is by changing the distributional consequences they have on minorities and the poor, a realignment which would require some level of redistribution. Refusing to talk about redistribution, then, is to cede the battle to eliminate poverty.

In the wealthy class's experience of the world, effort and ability appear to be the deciding factors for success and failure. This is largely because it is those already in power who set the rules that govern important institutions in society, rules that are often designed to favor the already wealthy. The arena of financial aid policies has not been spared this self-interested intervention.

Assets empower individuals to participate in, influence, control, and hold accountable institutions (see

World Bank, 2002). The power of assets to provide this control is reflected in how our political apparatus has become increasingly responsive to money and who has money (Ferguson, 1995). This power matters because institutions (formal and informal) govern the bargaining situation and provide sanctions when expectations are violated (Knight, 1992; North, 1990). Because people with assets have power over institutions, they also have the upper hand in changing social expectations (i.e., informal institutions) into rights (i.e., formal institutions) that are enforced by government sanctions.

In the case of higher education, the rapid increase in college accessibility after World War II overrode a long-standing social expectation that college was only for the wealthy. This change was driven, in part, by the need for a more skilled work force. At the time, demand for more skilled workers was growing faster than the supply; therefore, the cost of skilled workers skyrocketed (Archibald & Feldman, 2011). This created another incentive for the owners of capital to increase access to postsecondary education, in order to reduce costs of hiring skilled workers. This expansion resulted in more people, including women and minorities, competing for college degrees in order to be able to earn good wages.

This democratization of higher education met the growing need of the wealthy for a skilled workforce, but it also created increased competition for college degrees. Wealthy interests responded by changing the distributional consequences of financial aid to maintain their superior bargaining power, particularly when it came to selective colleges and universities. Selective institutions juxtapose two competing interests of the wealthy: to have more skilled laborers, while also maintaining advantage when it came to positions of power, status, and financial well-being.

We are not suggesting that the ever increasing reliance on student debt to finance higher education is the result of a conspiracy by the wealthy to control the financial futures of others. However, strategic actors leveraging their wealth and bargaining power to act in ways that maximize their own goals have perpetrated this shift. A problem with a system that promotes strategic actors acting in their own selfinterest is that disadvantaged actors—disproportionately, the poor and minorities—do not start off with equal bargaining power. In this way the creation of disadvantageous role expectations also functions to perpetuate class and racial biases, and in fact to inject them into the policymaking process.

Financial aid policy has continued to represent the dual interests of the wealthy described above—to allow for access to higher education, while maintaining current power imbalances. The shift in financial aid toward privatization and merit-based aid might have led to very different results if all strategic actors started off with similar levels of assets—if the playing field were level. But because a group in society was uniquely positioned to control the development of role expectations, it was able to benefit more from the financial aid system, which it has systematically leveraged to secure an ever growing share of grants, scholarships, and tax incentives, in addition to access to student loans.

#### **ROLE EXPECTATIONS AND FINANCIAL AID POLICY**

Prior to the Servicemen's Readjustment Act of 1944, commonly known as the GI Bill, college students were primarily male, White, and wealthy (Rudolph, 1990). There was very little competition from outside groups for selection into higher education, especially into the most selective universities. However, a growing need for skilled workers created the dual interests described earlier in this chapter: a desire to maintain control over higher education and a desire to have a greater number of skilled workers. These desires did not develop in a vacuum; instead, they developed as a result of ongoing economic

and political changes, advancements in technology, and social changes that led to increasing rights for women and minorities in the 1960s. In response, the federal government enacted the Higher Education Act of 1965. An expressed purpose of the statute was to create greater access to college among lower and middle-income families through the creation of scholarships, low interest loans, and work-study programs.

During the 1960s and 1970s the goal of financial aid was to keep tuition prices down and increase financial aid to the poor and minorities, those least represented in colleges and universities. Financial aid policy at the time attempted to address the unequal starting points of these different populations and to mitigate some of the effects of disadvantageous role expectations on individual students. During this period, need-based aid was the dominant form of financial aid. Need-based aid is determined solely on the assets and income of the prospective student and his or her family. Factors such as test scores have no bearing on the aid decision, largely in recognition of the effects of relative disadvantage on later academic performance.

Changes in 1972 to the Higher Education Act of 1965 opened the door for the privatization as well as the marketization of higher education (Mendoza, 2012). The 1972 amendments gave aid directly to students instead of to institutions. This shift of resources set the stage for cost shifts, as individuals and families have been increasingly expected to take on the lion's share of the burden of paying for college and colleges have been thrust into competition for students' financial aid dollars.

Both of these policy changes favored the wealthy. The wealthy were in a better position to take on increased responsibility for paying for college. This helped to make wealthy students more attractive to universities, particularly the more costly, selective ones. In this sense, it was not that wealthy students and their families acted to create laws that favored them; instead, because of their wealth advantage they were able to benefit more from the changes that occurred. In a society where effort and ability are seen as the determining factors for success, shifts toward privatization have inherent appeal and easily gain support. However, the low-income and minorities are disadvantaged in turning the rules of privatization to their advantage because they do not have resources that allow them to compete effectively with wealthy students.

In the 1960s and 1970s low-income students and their families could rely more heavily on grants to make up for a lack of income and savings, but the shift in the 1980s from need-based aid toward meritbased aid led to a financial aid program that largely subsidizes middle- to upper-income, White students to attend college (Baum & Schwartz, 1988; Woo & Choy, 2011). In the case of merit-based aid, of which scholarships are the most common form, a student with little financial need is just as entitled to aid as are students with high levels of financial need. Test scores are often the key factor for determining eligibility. Woo and Choy (2011) found that the proportion of undergraduates receiving merit aid rose from 6% in academic year 1995-1996 to 14% in academic year 2007-2008. Between 1982 and 2000 spending on need-based scholarships for undergraduates by the states increased 7.4% annually, while spending on merit programs increased 13.6% annually. The proportion of state grants awarded based on merit rose from 9% to 22% during this period (Heller, 2002; National Association of State Student Grant & Aid Programs, 2001). As of 2001, the 13 states with broad-based merit scholarship programs planned to distribute a combined \$709 million in merit awards annually, more than twice the \$325 million provided in need-based aid by those states in 1998-99 (Selingo, 2001). In line with pervasive achievement gaps by income, research shows that merit-based aid is awarded disproportionately to students from higher income families (Dynarski, 2002; Selingo, 2003 Woo & Choy, 2011). Not surprisingly, then, merit-based aid has done little to improve college enrollment rates among low-income and minority students (Marin, 2002). In fact, it has further expanded divides into the college years (Ehrenberg, Zhang, & Levin, 2005). This may also help to establish a set of role expectations that augments higher income students' ability to attend college while constraining that of lower income students, even when they are highly qualified (Carnevale & Strohl, 2010).<sup>5</sup> Many of these students do not even apply to college, and most are anxious about the availability of financial aid. In a national survey of college–qualified<sup>6</sup>, low-income students, Hahn and Price (2008) found that over 80% of noncollege-goers identified financial aid as "extremely" or "very" important in their decisions not to enroll in college. The authors found that among college-qualified, low-income students who do not enroll in college, only 15% applied to any college, 12% applied for financial aid, 10% took the SAT, and 7% took the ACT. These college-qualified non-goers are disproportionately minority (52%) and low- and moderate-income (38%). In a 2006 report, the ACSFA finds that during the 1990s, between 1 and 1.6 million college-qualified high school graduates did not earn a bachelor's degree, and they estimate that between 1.4 and 2.4 million will be lost in this decade.<sup>7</sup> The estimates exclude those college-qualified, low- and moderate-income students who do not graduate high school.

Once a student arrives at college, the type of institution—two- or four-year, private or public, selective or non-selective, small or large—has important implications for the likelihood of graduating (Carnevale & Strohl, 2010). Two-year colleges have lower retention rates than four-year schools, even after accounting for differences in the types of students (Tinto, 1987). Because those who attend two-year schools tend to come from families with fewer advantages, these retention differences exacerbate inequality. Similarly, private and more selective postsecondary institutions have higher retention rates on average. As Davies and Guppy (1997) point out, student socioeconomic status is related to the likelihood of entering a selective college, and even choosing a lucrative major within a selective college.

Low-income students attending private or selective schools gain important advantages. They are likely to receive more financial aid and have to pay less than if they attended less selective colleges and universities (Hoxby and Avery, 2012), while likely realizing superior educational outcomes at these higher-performing schools. They also are more likely to encounter socioeconomically advantaged peers who can positively influence graduation, catalyze formation of social networks, and help bridge gaps of cultural capital. This all translates into students in more selective four-year colleges being set on a path to enter high-paying professional and private sector managerial careers (Carnevale & Strohl, 2010).

In contrast, students in less selective four-year colleges are put on a path to fill positions in "K-12 teaching, health care technician jobs, and state and local public administration" (Carnevale & Strohl, 2010, p. 79), which have less earning potential and lower social status. Again, the pertinent question is not whether these are superior paths to those that would have been available to these students without college degrees or whether these are critical roles in the U.S. economy. Instead, the pertinent question is whether, with these disparate outcomes, education plays an equalizing role in the U.S. economy. Indeed, even beyond the more tangible financial effects of college completion, attendance at educational institutions—particularly public ones—is theorized to be critical to the development of well-rounded participants in our democracy. To the extent to which financial aid policies help to funnel students into distinct channels of higher education, even these more subtle socialization effects may be eroded today.

The trend toward student loans making up a growing proportion of financial aid packages is in large part the result of policy changes meant to increase access to college for low-income students. The federal government has increased access to loans through programs such as the federal Stafford subsidized and unsubsidized loan programs and Parent PLUS Loans. For example, the Middle Income Student Assistance Act (1978) brought college loans to the middle class by removing the income limit for participation in federal aid programs (Hansen, 1983). According to Geiger and Heller, "Higher education had tapped into a new source of revenue—the future earnings of its students" (Geiger and Heller, 2011, p. 8).

The 1992 amendments to the Higher Education Act (HEA) made unsubsidized loans available, and the Omnibus Budget Reconciliation Act (1993) included provisions for the Federal Direct Loan Program. The reauthorization of HEA marked a fundamental shift away from financial aid that reduces disparities in college access, toward a focus on making college cheaper for all students by increasing access to student loans. Hannah said, "And the politics of HEA '92 are important because they resulted in a significant shift in federal policy from an historic commitment to promote access to postsecondary education through grants based on need to a broader strategy of insured loans regardless of family income" (Hannah, 1996, p. 498). More recently, Congress raised the ceiling on the amount of individual federal Stafford loans students can borrow through the Ensuring Continued Access to Student Loans Act (2008). The Health Care and Education Reconciliation Act (2010) routed all federal loans through the Direct Loan program, making it easier for students and parents to borrow directly from the U.S. Department of Education.

However, the enthusiasm policymakers have shown for student borrowing as the primary solution to the college affordability gap has not necessarily translated to benefits for lower income students, who are, as earlier chapters have discussed, more likely to be averse to taking out high-dollar student loans to pay for college. To avoid high-dollar debt, these students may choose to attend less selective two-year colleges, to work while attending school, or to delay college enrollment after high school graduation. All of these practices are associated with compromised college graduation rates (Carnevale & Strohl, 2010).

This expectation that lower income students attending two-year colleges is a way to drive down costs and avoid student loans is conveyed, in part, through well-intentioned school personnel. For example, Elliott reports that a school counselor considering access to college for low-income students put it this way:

Being able to see it made a big difference because I had students that were accepted into 4-year colleges around the state but once we looked at the aid packages, they realized, OK, it doesn't make sense for me to go down to [4-year college] and take out some loans when I can get money back if I start at [2-year college] and just get my associate's and then transfer so that, they have to see it, they have to be able to touch it. And I'm the same way, like you can talk to me all day but until I see the numbers, it's not really going to click with me. (Elliott, 2013c, p. 19)

Somewhat ironically, as is the case with disadvantageous role expectations that compel people to make decisions that benefit the group that created the expectations, Carnevale and Strohl (2010) report that students who attend a selective college pay smaller shares of the costs of their education relative to students in two-year and less selective four-year colleges. They state, "Students in the wealthiest 10 percent of institutions pay 20 cents for each dollar spent on them. Students in the poorest 10 percent

of colleges pay 78 cents for each dollar spent on them" (Carnevale and Strohl, 2010, p. 79). This is an illustration of how disadvantageous role expectations encourage low-income students to make decisions that are not necessarily in the students' educational or financial interests. These data also illustrate the importance of institutions in mediating the higher educational experience of students, as these highly resourced institutions are more able to support their students' academic goals.

#### CHANGING THE DISTRIBUTIONAL CONSEQUENCES OF FINANCIAL AID WITH CSAS

We suggest that asset inequality gives advantaged groups the power to establish role expectations. This is because assets increase the capacity of income to translate to assets. Shapiro, Meschede, et al (2013) found that a \$1.00 increase in income later translates to a \$5.00 increase in wealth for Whites, but only a \$0.70 increase for Blacks. They also found that when Blacks start off with similar levels of assets, they have a return of \$4.03 for each dollar increase in income. This indicates that initial asset levels play an instrumental role in the power of income to generate assets.

These findings suggest the potential power of a financial aid system that supports students in building assets. Instead, low-income students face disadvantageous role expectations and a financial aid system that does not support them, resulting in additional barriers to success in college and economic self-sufficiency after college.

Knight believes that institutions can be changed "by changes in either the distributional consequences of those rules or the relative bargaining power of the actors" (Knight, 1992, p. 145). Thus, changing the distributional consequences of role expectations and the bargaining power of minority and low-income children is a way to change role expectations that are in conflict with attending and completing college.

In the current higher education landscape, which features rapidly rising costs and offers debt as the primary means for disadvantaged students to overcome cost barriers, responsibility for challenging disadvantageous role expectations primarily lies with low-income or minority parents, philanthropic organizations, or other benevolent actors. Low-income parents are at a disadvantage for providing the kind of financial resources needed to counteract disadvantageous role expectations. Philanthropic groups tend to focus on ad hoc solutions—providing needed material goods or services to a particular low-income child—without addressing the structural factors that led to the child's lacking such necessities in the first place. As a result, low-income children from the same neighborhood can have very different experiences.

In contrast, and as detailed further in the following chapters, CSAs may offer a systemic answer to disadvantageous role expectations, empowering more low-income and minority students to apply for college, and to more selective colleges, and preparing them for success once there. CSA programs do so by placing role expectations back in line with students' best interests by ensuring that college appears attainable to children throughout their time in school. CSA programs may also give students a sense of community support for their education, through community-organized, third party contributions to CSA accounts. These kinds of contributions ensure that each child in a community forms a college-bound identity rooted in a durable community identity around college attendance and success. These new relationships and this altered context can reset the messages children may hear elsewhere about the likelihood of college in their own futures, thus supporting identities that feature high educational expectations.

CSAs may also provide a way for children to interpret and overcome difficulty. To sustain and work toward an image of a future self as being college bound, the context must provide a way to address obstacles to attending and completing college. Here, the role of school savings is clear, and this mechanism may provide some particular insights into why school savings are so influential in affecting persistence to college graduation.

There is reason to believe that the public would largely back widespread, even universal, implementation of CSAs, given evidence suggesting that asset effects on educational outcomes can be realized at relatively low levels of investment. As part of a public commitment to more equal access to higher education, a national CSA program could provide children with the bargaining power they need to deemphasize disadvantageous role expectations most of them share in forming their own identity.

Education is not simply about effort and ability, or even a teacher and a student. Rather, digital literacy, access to cultural events, and the development of "soft skills"<sup>8</sup> are all important components of a high quality education today, and require the development of social capital and a strong college-bound identity. CSAs support this work in a way that student loans do not.

# **KEY POINTS**

- In today's society, institutions largely function to solidify the bargaining position of those in power; the financial aid system is no exception.
- The shift from need- to merit-based aid reflects the assumption that the most qualified students will be able to perform adequately, without regard to the social, political, and economic factors that also influence performance.
- Role expectations affect who attends college, and where students go, resulting in inequitable outcomes for equal effort.
- Children's savings accounts could change the distributional consequences of higher education, equipping disadvantaged students with not only financial resources with which to meet the demands of rising college costs, but also with a strong college-bound identity.

#### **CHAPTER 4**

#### **RETHINKING FINANCIAL AID: ASSETS FOR ALL?**

#### **OVERVIEW**

Assets are already part of the college financing landscape for most high-income children in the United States; indeed, wealthy children's superior educational attainment is owed in significant part to their parents' early promises to pay for college from their asset bases. In addition to the central purposes of improving educational outcomes and strengthening students' financial positions, extending asset accumulation opportunities to all American households could also make the student loan system in the United States sustainable, by reducing the number of students taking on crippling high-dollar debt loads. Demonstration projects have proven that low-income families can save, and research shows that assets deliver superior outcomes before, during, and after college. But today there are too few mechanisms through which the poor can save, and too many disincentives to dissuade them. Nationwide implementation of children's savings accounts can address this gap between promise and results, given the right policy changes.

If the American dream is to have real meaning for today's young people, it should not require mortgaging one's financial future in pursuit of education. Today indebted graduates face reduced household net worth, assets, home equity and retirement savings. An overemphasis on loans has proven counterproductive, both for individuals, who experience poorer outcomes as a result of their loan burdens, and for society, which reaps reduced benefits from collective investments in publicly backed student loans.

When thinking about student loans, we should ask not only whether they improve or do not improve students' outcomes, but also whether they are the best of the financial aid options available. Although evidence suggests that small amounts of student loan debt can play an important positive role in helping students persist through graduation, student loans should not be the primary tool available to help disadvantaged students succeed in college. Research shows it is better to combine loans with other tools, such as grants, scholarships, and savings. Hu and St. John (2001) examined different types of financial aid and found across different racial groups that, when combined with grants, loans have a more positive effect on persistence than do loans alone. This led Heller to conclude, "If grant aid were proportionally higher, then loans might provide more of a positive impact on college participation" (Heller, 2008, p. 49). Thus, as the United States considers reforms to the financial aid system, policies to complement student borrowing could not only improve the affordability equation, especially for low- and moderate-income students, but also improve the efficacy of our largest financial aid investment: student loans.

However, due to fiscal constraints and the framing of higher education benefits as personal responsibility, there might be little political support in the near future to increase the number of scholarships and grants available. Given this, there may be need for an innovation in financial aid that combines loans and CSAs. CSAs are a policy vehicle for allocating intellectual and material resources to low- and moderate-income children. Unlike basic savings accounts, CSAs leverage investments by individuals, families, and third

parties (e.g., initial deposits, incentives, matches), most often with an explicit objective of supporting higher education financing. CSAs appear to align well with the ideal of personal responsibility because they require students and their families to help pay for college by saving. However, unlike the current approach, which often forces students and families to take on high-dollar debt to fulfill their college cost obligations, CSAs promise some significant benefits to children before, during, and after college by facilitating household asset development.

#### THE EVIDENCE BASE FOR ASSET BUILDING

For more than a decade, evidence has increasingly suggested that low-income children and families could save (Sherraden, Johnson, Clancy, Beverly, Schreiner, Zhan, & Curley, 2000) and that savings could transform students' educational futures (Elliott, 2013a). These latter findings added a new layer to the case for an asset-based approach to financial aid: not only could assets help families exit poverty, they could increase students' access to and success in college. Today, with college costs rising, student debt spiraling, and educational outcomes largely stagnating, there may be a window of political opportunity through which to propose a way to maximize the impact of the federal government's primary financial aid investment, student loans. Somewhat paradoxically, research suggests that the way to maximize the effect of student loans on students' education and post-college outcomes may be to reduce their volume. In light of high and increasing college costs, though, reliance on loans can only be reduced through the introduction of complementary measures. Political and economic analysis suggests that household savings will have to play a part in this accounting. But if we want low-income families to save—and to save enough to meaningfully reduce reliance on student loans—we will have to create new methods for their asset accumulation and reintroduce the term "redistribution" into the debate about how to make education the true equalizer in society.

The idea that the well-being of low-income households could be improved through programs and policies that support their asset accumulation, not just their consumption potential, now has more than two decades of experimentation, analysis, and theory development behind it (Elliott, 2013a). Initially, these asset programs focused on families' and households' asset building and primarily centered on adult savers as the unit of intervention. The American Dream Demonstration (ADD), overseen by the Corporation for Enterprise Development, began in 1998 to test whether lower income families and households could save in subsidized individual development accounts (IDAs). The five-year ADD concluded with promising results, and the long-term effectiveness of IDAs is still being tested (Richards & Thyer, 2011). Also in 1998, Congress passed the Assets for Independence (AFI) Act, which established a federal grant program to offer IDAs to lower income families and households. As a result, there are over 200 AFI-supported IDA programs nationwide (U.S. Department of Health and Human Services, 2012).

IDAs were originally proposed as accounts that would be automatically available to every citizen in the United States, accrue interest, and limit or restrict use to preapproved asset-building expenditures such as home ownership, microenterprise, and education. Account holders whose annual incomes fell below certain thresholds would be eligible to receive subsidies to incentivize and support their saving, paralleling the tax-based incentives that facilitate savings among wealthier households (Boshara, 2003).

Sherraden initially proposed that IDAs be opened early in life—ideally, at birth—to promote asset building and well-being across an individual's lifespan. Sherraden writes, "Because asset-based welfare

is a long-term concept, some of the best applications of IDAs would be for young people. Young people would be given specific information about their IDAs from a very early age, would be encouraged to participate in investment decisions for the accounts, and would begin planning for use of the accounts in the years ahead" (Sherraden, 1991, p. 222). As implemented, however, IDAs are short-term, assetbuilding programs to assist families and households in establishing and maintaining self-sufficiency and initiating a connection to the financial mainstream. The difference between the original vision of IDAs and the reality of IDA implementation in the United States stems in part from the constraints of federal funding and the difficulty of constructing an intervention with a multiyear trajectory of change.

Today the conversation about the student loan crisis and its ramifications for individuals, households, and the U.S. economy creates an opening for a savings vehicle to support young peoples' education. CSAs could provide this vehicle. CSAs build on the most important lessons of IDA theory and practice: Individuals in poverty can and will save, with the right tools and incentives, and these savings can be instrumental in promoting positive social and economic choices by these individuals (Lerman & McKernan, 2008). CSAs should retain IDAs features such as universal availability and subsidies for young people whose families and households meet income eligibility guidelines, and should be opened automatically at birth. This long-term approach to asset-building promises improved well-being, since accounts have more time to grow in value and the multiplier effect of improved educational outcomes can be leveraged for increased likelihood of college success. CSAs were tested in the field beginning in 2003 with the Saving for Education, Entrepreneurship, and Downpayment (SEED) initiative, a national demonstration in 12 locations across the country. Shortly thereafter, the America Saving for Personal Investment, Retirement, and Education (ASPIRE) Act was introduced in Congress to establish a national CSA policy that would open savings accounts automatically for all Americans at birth.

Key features of CSA program and policy design enhance these accounts' impact on outcomes for account holders, especially those from low-income households: universal and automatic access, progressive savings incentives, account structures that facilitate human capital development, and robust and flexible administration capable of following children throughout their academic careers. This means that access to savings accounts would not depend on whether a local bank offers a savings program or families have a surplus of financial resources with which to open accounts for their children. Instead, public policy would explicitly build structures that help all children experience the power of assets to shape educational trajectories, advantages currently enjoyed primarily by those children whose parents can afford to finance them.

While CSAs could parallel IDAs' allowable uses (to promote asset accumulation for homeownership, retirement, and capitalizing a business venture), there are important reasons for focusing CSAs on higher education. Recent surveys suggest that there may be particular support for CSAs dedicated to education, likely reflecting Americans' abiding belief in the role that higher education plays in facilitating the American dream. In one survey, 40% of registered voters surveyed believe that making education more affordable should be the top priority of government. No other priority garnered favor from a larger proportion of respondents (Goldberg, Friedman, & Boshara, 2010). Similarly, 58% of registered voters in the study thought that the most effective use for CSAs would be to help families save for college. Politically and pragmatically, framing CSAs specifically as a tool with which to facilitate educational attainment may allow advocates for equitable systems of higher education financing to take advantage of the current perception of a student debt crisis.

CSAs are gaining traction around the country, not as a fad or a merely interesting alternative but as a potentially powerful tool with which to improve educational attainment and make existing institutions—K-12 schools, universities, the financial aid system—work better, especially for disadvantaged students. In the absence of passage of national CSA policy, some states and localities have incorporated elements of CSA design into state 529 college saving plans, including publicly funded initial contributions and matching contributions for low-income savers, opening accounts for children who reach specific educational milestones (such as kindergarten enrollment), and experimenting with school-based savings and financial literacy initiatives (Goldberg, Friedman, and Boshara, 2010). North Dakota, for example, provides a \$100 grant for any newborn in the state, provided that the \$100 is matched by a private contribution before the child's fourth birthday.<sup>9</sup> Enacted in 2010, Nevada's Silver State Matching Program provides a 1:1 match on contributions for households earning annual incomes below \$41,400 and a 50% match up to \$300 per year for households earning annual incomes between \$41,400 and \$61,950. In other parts of the country, school districts, counties, and municipalities are also stepping into the breach. San Francisco, California, became the first locality in the United States to provide "opt out" college savings accounts to all enrolled kindergarteners, in 2010.<sup>10</sup> Cuyahoga County, Ohio, began a similar effort in fall 2013, specifically citing as a rationale for their investment the potential for improved educational outcomes by helping families and students finance college through savings.<sup>11</sup> Collectively, these innovations are helping thousands of low-income students, while testing different policy mechanisms and strengthening the case for broader CSA implementation. These developments also expose the need for policies that situate student borrowing more appropriately within a broader and fundamentally more equitable financial aid institution.

#### THE IMPACT OF CSAS

CSAs have demonstrated effects on students' educational attainment before, during, and after college, which are reviewed below. The Assets and Education Initiative (AEDI) at the School of Social Welfare at the University of Kansas recently released a comprehensive report on the assets and education field (Elliott, 2013a) that documents in greater detail the evidence linking asset accumulation with superior educational outcomes.

#### Before College

By turning college into an important, not impossible, goal and giving students and families a clear strategy for how to overcome cost barriers, college savings increase the likelihood of college enrollment. For example, 45% of low- or moderate-income students with no savings accounts enroll. That compares to 71% with more than \$1 of school savings, 65% with school savings from \$1 to \$499, and 72% of students with school savings of over \$500 (Elliott, Song, & Nam, 2013a). Of course, enrolling in college is not only a question of financial preparedness; evidence suggests that the longer term challenge of ensuring that students are academically equipped to succeed in college is just as important. Here, too, asset possession shows superior outcomes, largely through reinforcing a college-bound identity that increases student engagement and builds parents' expectations of higher education (Elliott, Destin, & Friedline, 2011). Conversely, going through school without assets can actually compromise achievement. Spells of asset poverty prior to age 11, in particular, have a negative effect on academic achievement scores (Elliott, 2013b).

### During College

In contrast to high-dollar student loans, which show some negative effects on college graduation, research suggests that college savings improve a student's chances of making it all the way to graduation. The results are dramatic: 5% of low- and moderate-income (below \$50,000) students with no account, 13% who have school savings but less than \$1 saved, 25% who have school savings from \$1 to \$499, and 33% of students who have school savings of \$500 or more graduate from college (Elliott, Song, & Nam, 2013a). There are several ways in which this relationship may unfold, all of which warrant additional study. Students who come to college with assets to spend may be less worried about financial considerations and the stress of taking on expensive debt, allowing them to focus on their studies. The psychological effects of asset holding, including increasing students' sense of ownership of their educational experience, may qualitatively shift how they engage in class. The way that assets affect students' expectations and preparation for college may better position them for success. Perhaps through a combination of these forces, 74% of students with college savings are on course to graduate, compared to 41% of students with no savings (Elliott and Beverly, 2011).

Table 1 illustrates these educational effects. Having less than \$500 saved for college can make a student three times more likely to enroll and four times more likely to graduate than if he or she had no college savings.

#### TABLE 1

Even Small Amounts of Savings Can Lead to Higher College Enrollment and Graduation Rates among Low- and Moderate-Income (below \$50,000) Students

	Enrollment	Graduation
No College Savings	45%	5%
\$1 to \$499 Saved for College	65%	25%
\$500 or More Saved for College	72%	33%

Source. Elliott, Song, and Nam (2013a).

# After College

Just getting through college is not the ultimate aim of higher education or of financial aid systems. Instead, higher education is largely intended to position children for greater success in life. Here, too, CSAs show promise. By instilling habits of savings, reducing the long-term cost of financing, and connecting young adults to financial institutions, asset-based financial aid is alone in improving graduates' financial status following college completion. In addition to the positive financial effects of reducing dependence on student loans, described below, children who have savings accounts while they are young are more likely to own savings accounts as young adults, have more diversified asset holdings, and accumulate higher net worth (Friedline & Elliott, 2012). Specifically, when they have savings accounts as children, young adults are two times more likely to own savings accounts and four times more likely to own stocks (Friedline & Elliott, 2012). Young adults own almost twice as many types of assets if they had savings accounts as children, versus those who do not (Friedline & Elliott, 2012). These outcomes, of course, are in addition to the spillover effects of improved educational outcomes, which may, in turn, improve employment prospects and lifelong earning potential.

If our current, loan-based financial aid model helps children pay for college only when they reach college age, while another, a hybrid loan and asset-based model, has the potential for multiple positive effects beyond paying for college throughout children's educational careers and at least into early adulthood, the better investment becomes clear (see Table 2).

#### TABLE 2

		Precollege Educational Outcomes	College Access Outcomes	College Completion Outcomes	Post-college Financial Outcomes
Lo	bans	Not applicable; college loans are designed to be a college access intervention.	Extensive reviews suggest findings can be considered mixed or weak at best (e.g., Heller, 2008).	Research suggests debt, even considerably less than the average (\$26,500) graduate accumulates today on the way to a degree, may diminish returns for graduation potentials (Cofer & Somers, 2000; Kim, 2007; Dwyer et al., 2012). Grants are better predictors of college completion than are student loans (U.S. GAO, 1995, IHEP & TERI, 1994; 1995).	Negative effects, associated with delays in marriage, delays in purchasing cars and homes, lower credit scores, less net worth, assets, home equity, and retirement savings.
As	ssets	Mixed success with respect to improving reading outcomes; a more consistent and positive relationship is found between assets and children's math scores. Assets also appear to have positive associations with a number of other precollege educational outcomes such as GPA and high school graduation (e.g., Elliott, Jung, & Friedline, 2011).	Researchers find a consistent positive association between assets and college access (e.g., Zhan & Sherraden, 2011).	Researchers find a consistent positive association between assets and college completion (e.g., Elliott, 2013).	Emerging research finds a consistent positive relationship between children's savings and young adult financial outcomes (e.g., Friedline & Elliott, 2013).

Comparing a Debt-Dependent Financial Aid Strategy to an Asset-Dependent Strategy

Note: For an extensive review of asset and education research, see Elliott (2013a).

STUDENT LOAN D	EBT:
Consequences	4 Out
TOMORROW AND	ot 10
FOR YEARS TO COME	U.S. Households Headed by Individuals Younger than 35 Years of Age Have Outstanding Student Debt

# The State of U.S. Student Debt

Rise in Undergraduate Students Who Took Out Federal Loans



Average Outstanding Student Debt, 1989 Compared to 2010\*

1989	2010		
\$\$\$	\$\$\$\$\$\$\$\$		
\$ <b>\$</b>	\$\$\$\$\$\$\$		
\$\$	\$\$\$\$\$\$\$\$		
¢ ¢			
$\Psi \Psi$	$\psi \psi \psi \psi \psi \psi$		

\* Pew Research Center tabulations of Survey of Consumer Finances data

\$= \$1,000

# Short-Term Effects of Student Debt Among Households with College Graduates





Less Retirement Savings for Those with Student Debt



#### THE POTENTIAL FOR ASSETS TO REDUCE COLLEGE DEBT

Although encouraging effects on educational outcomes can be realized with relatively small account balances, creating truly equitable educational opportunities for students who approach college without a store of parental assets will require some mechanisms of redistribution. This suggests that assets can work to improve educational outcomes for disadvantaged students in two significant ways: (1) by creating engagement in school and cultivating positive academic expectations and behaviors, which may require very little in actual savings; and (2) by reducing dependence on student debt, which requires deposits sizeable enough to help truly finance the rising costs of college. There is reason to believe that, rather than operating on entirely parallel planes, these two mechanisms could complement each other. As parents and children grow to see college as an important and proximate goal, they may increase their commitment to dedicating financial resources to college savings. If this virtuous cycle is initiated early enough in a child's development, even relatively low-income households may be able to save enough to forestall the highdollar debt understood to be potentially most harmful. While the precise amount of debt that triggers harmful effects cannot yet be definitively known, there is reason to believe that it is far lower than the extreme figures often cited in popular media. For the sake of illustration, consider that if \$10,000 of student debt triggers the most adverse outcomes in terms of graduation rates and post-college financial security, then families need to save about \$16,000 per child in order to bridge the gap between the average amount of debt held today (\$26,000) and this threshold level. In practical terms, this means that assuming no initial deposit, a 1:1 match on contributions, and 5% interest-families would need to save about \$23 per month, starting at a child's birth, to achieve \$16,000 in savings by the time the child reaches 18. However, relatively few families of any financial means begin saving for college precisely at birth, absent explicit structures and incentives to do so, and many families will have more than one prospective college student, so it will be more than \$23 per month for these families. While there are relatively few field tests with long enough track records and participant sample sizes to definitively ascertain median savings amounts, research from demonstration programs such as SEED suggests that on average families in CSA programs save approximately \$10 per month (Mason, et al., 2009). While not, on their own, likely adequate to reduce reliance on high-dollar debt, these findings can be interpreted to affirm that low-income families can and will save, and to guide public policy toward the necessary types and levels of supports to ensure that these efforts yield balances commensurate with higher education needs.

Therefore, CSAs can perhaps best be understood as vehicles for working on both these fronts: to create and sustain positive expectations and school engagement, and for accumulating and delivering investments that redistribute financial capital in order to build greater human capital, particularly among disadvantaged children. However, for low-income families to save, and to save enough to produce a meaningful reduction in reliance on student loans, requires a new asset-accumulation infrastructure. This infrastructure, as described in greater detail in the next chapter, could take the form of initial deposits from state or federal treasuries, matches from public or private sources, or reconfigurations of existing financial aid streams, including means-tested scholarships and grants. Building the collective will to construct, finance, and deploy this infrastructure means first placing such an approach properly within the larger financial aid system, as a complement that can help student loans function better and, perhaps, reduce the overreliance on student borrowing. Student borrowing is likely to play a significant role in college financing in the foreseeable future and, indeed, evidence suggests that, in small doses, loans can play a constructive role in facilitating access to college without compromising higher education's equalizing power.

#### **KEY POINTS**

- Assets are associated with increased college enrollment and with stronger expectations of college attendance, which in turn lead to superior educational performance. Since stagnating graduation rates are a serious concern not only for individual students but also for U.S. society, assets should be a key part of U.S. higher education policy going forward.
- Having savings as a child increases graduates' savings behavior as young adults, builds relationships with the same financial institutions essential for long-term asset development, and, by reducing the need for student borrowing, can reduce the real cost of higher education.
- Reducing students' dependence on borrowing could improve loan performance in the arena of educational outcomes, thereby increasing the loans' ability to deliver equitable access and greater rates of college access and graduation.

#### POLICY DISCUSSION: TOWARD A 21<sup>st</sup> Century Financial Aid System

#### **OVERVIEW**

Although many American young people today are disillusioned, as they recognize that the narrative of the American dream has relatively little meaning in their own educational and economic realities, they—and we—should take comfort in the recognition that the policy structures that have imperiled education's equalizing role are institutions that are infinitely malleable. Policy changes can reshape these structures to provide greater opportunity, superior outcomes, and far greater equity. Outlining the needed reforms first requires tracing the roots of the problem; here, this must begin with a call for reinvestment in higher education as a public good, in order to reverse the risk shift and, at least, slow the growth in college costs. Students deserve access to financial aid based on economic need, in addition to academic merit, and at least some of this financial support should be reimagined as an early commitment effort, in order to leverage the power of time to build expectations and shape behavior. As the United States transitions to an asset-based financial aid policy, students and graduates need help to build the asset side of their balance sheet, in order to cope more successfully with their ongoing debt obligations. Taking on student loans need not result in the lifelong financial disadvantage, born of delays in asset accumulation, demonstrated in the data analysis included here. Public assistance and financial aid policy must stop sending divergent messages to low-income and higher income households about the value of saving, and ensure that disadvantaged families face the same incentives as their wealthier peers; policymakers should move quickly to eliminate asset tests in most means-tested programs. And, as stated above, the potential for assets to deliver far superior educational outcomes throughout a student's career makes developing a universal, progressive, lifelong Children's Savings Account structure a national imperative. Providing assistance with capitalization and savings incentives to families is necessary to craft savings opportunities that not only shape attitudes and behavior but also support enough asset building to reduce students' dependence on high-dollar debt. These efforts fit within the footprint of current investment in student borrowing and parallel the generous support provided to many already advantaged

Bridging the divergent approaches to college finance for lower income students (mostly revolving around extending availability of student loans) and higher income students (asset-based and administered largely through the tax code) can restore higher education's ability to serve as an arbiter of equality in U.S. society, while delivering the superior outcomes so needed for long-term economic prosperity. This will require constructing college savings complements to student loans, as close to birth as possible. Policymakers should leverage currently available vehicles, including state 529 plans, Pell Grants, and college preparation programs for potential inclusive asset accumulation strategies, while also examining the need for separate asset-building structures to redistribute capital in pursuit of educational achievement. Asset-based financial aid must align with other elements of the college financing system, with U.S. tax policy, and with income supports. Financial services should aggressively seek to build the

balance sheets of all American families, particularly the more financially vulnerable, through creative savings approaches, recruitment of nontraditional savings outlets, and dramatic expansion of direct deposit offerings. These advances in asset policy must be complemented by reforms to the student loan industry, so that the harmful effects of high-dollar debt, particularly as the United States transitions to a more balanced financial aid approach, do not undercut gains in asset accumulation . This requires more than just tweaking the student loan system by manipulating interest rates or repayment terms, instead ensuring that students' educational prospects and long-term financial security are priorities for any student borrowing exchange. These are policy challenges not just for asset practitioners and advocates, or for the financial services industry. If, as the research suggests, every American child could benefit from having a stake in his or her future, advocates of improved educational opportunities and every American concerned about our economic competitiveness and future economic growth must consider how to build the policy apparatus capable of transforming the way we pay and prepare for higher education.

Therefore, we recommend policy changes in several areas to recast the U.S. financial aid system as a tool for building the assets and improving the educational futures of low-income and minority households:

- 1. Incentivize completion, through such measures as partial forgiveness of loans for low-income students and emergency aid to help low-income students through challenging financial times to completion;<sup>12</sup>
- 2. Mitigate the financial effects of debt, through measures such as credit score protection for recent graduates;
- 3. Eliminate disincentives to save for low-income families, such as removing assets from SNAP and TANF eligibility determinations and from financial aid calculations within the FAFSA;
- 4. Build a savings component into Pell Grants and facilitate early determinations of eligibility that would leverage the potential for early commitment effects; and
- 5. Establish CSA programs that are universal, lifelong, and progressive, through modification of state 529 plans or deployment of other college savings platforms.

## REINVESTMENT IN HIGHER EDUCATION AS A COLLECTIVE GOOD

Envisioning a new financial aid structure requires understanding the forces that have contributed to the status quo: the retreat from government investment in need-based scholarships and grants, which has pushed students to borrow as a first and last resort; the simultaneous disinvestment in direct public support for institutions, which has been a primary driver of rising college tuition prices;<sup>13</sup> and the failure to imagine an asset-based approach to paying for the education of low-income students, despite the fact that this is how wealthier families have long financed education.

To address the factors driving the shift to borrowing, Congress should reverse the declining value of the Pell Grant and reaffirm the commitment to providing financial support for qualified students in need. In the 2010-2011 school year, the maximum Pell Grant award covered only 36% of the average cost of attendance at a public four-year institution, compared to 77% in 1979-1980 (Krugman, 2012). The United States cannot have an equitable higher education system without addressing the increased need for financial assistance for those who approach college without family asset stores.

Additionally, state and federal budgetary policy should prioritize human capital investments, including higher education, to rebalance university budgets, particularly in the public institutions that have long been the gateway to educational opportunity. Public investment in higher education tends to be cyclical, with state and local appropriations for public institutions, in particular, declining during economic downturns (Desrochers, Lenihan, & Wellman, 2010, p. 5). This correlates with increases in tuition across all of postsecondary education, in a "pattern of cost shifting to student tuition revenues in times of economic downturn" (Desrochers, Lenihan, & Wellman, 2010, p. 5). Slowing the rapid increase in the price of college will reduce the gap between what low-income families can save and what they must spend, while helping to bring debt levels down to more manageable levels for those who must borrow. Since there is also evidence that so-called sticker shock can influence the educational decisions of students and their families, constraining the growth in tuition prices may ensure that fewer talented students are deterred by high costs (College Board, 2012). More adequate and stable funding for higher education could also help to blunt the harm inflicted on American families during a recession, as would-be students encounter rising prices at precisely the moment when they are most in need of additional human capital with which to navigate a harsher economy.

# Reforms to Minimize the Negative Effects of Student Debt and Encourage Completion

#### **Incentivizing Completion**

Transitioning toward an asset-building financial aid system requires not only implementation of CSA policies, but also explicit efforts to reduce the negative effects of student debt. Loans will likely continue to be part of the overall college financing package for most students, but their pernicious effects need not be. Among the changes that could reduce the potentially negative effects of borrowing are improvements to communication with students and families about financial aid; use of different incentives for institutions regarding student completion and loan performance; provision of emergency aid to students who are heavily leveraged to prevent the disruptions in academic progress often associated with financial setbacks; student incentives for educational attainment, potentially including at least partial loan forgiveness for on-time degree completion by Pell-eligible students; and policies that reduce debt burdens and improve repayment options, including income-based repayment and incentives for employer matching for student debt repayment following graduation (Huelsman & Cunningham, 2013). In general, improving the accountability and performance of higher education can improve the cost-benefit calculus, especially for students whose degrees will be financed through reliance on borrowing. Measures that reflect progress in this arena include regulations that would require career colleges to prepare students better for gainful employment in order for those schools to remain eligible for participation in federal financial aid programs, and President Obama's proposal to change college ratings, so that parents and students confront college decisions armed with information about institutions' track records in graduating students without excessive debt and moving low-income students to graduation. However, these innovations and others related to changes to the student loan market itself, including proposals such as "pay it forward" and conditional repayment, may represent tweaks to the student loan industry, rather than fundamental reforms (Kelderman, 2013). As such, any changes to student borrowing that would still result in significant diversion of college graduates' income away from asset accumulation, for example, or serve as a rationale for further state disinvestment in higher education, will likely fail to deliver on the promise of asset alternatives to loans.

#### Mitigating the Effects of Debt

Policy changes also are needed to support indebted college graduates as they strive to build assets. This generation may face the prospect of beginning young adulthood in debt for the foreseeable future, but this does not necessarily mean that they must delay homeownership, asset accumulation, and other significant milestones toward economic security. There are several options for helping individuals build assets while they deal with student debt. First, graduates' credit scores should be protected from student loan effects, as is currently the case for current college students, whose loans do not count against their credit scores. We suggest extending this period through age 34. Ages 25 to 34 are the period when many people purchase their first home (National Association of Realtors, 2011), a major source of asset building for most families. Second, indebted graduates should get help developing good credit with home loan products specifically designed for them. Third, the financial services industry should comprehensively and aggressively extend savings opportunities to American households, particularly the economically vulnerable, to ensure that loan liabilities are offset to some extent by growing asset bases. This could include pushing for refundable tax incentives (so that tax-based subsidies parallel those provided to wealthier savers), as well as developing products specifically designed for low-income consumers, including some adapted from the developing world, such as mobile banking and targeted marketing. Fourth, U.S. policymakers should explore incentives and structures for prize-linked savings, prepaid savings cards, expansion of direct deposit, promotion of nontraditional savings outlets, and automatic savings devices (Boshara, 2012), even while recognizing that more aggressive redistribution efforts will be required to ensure that low-income households can build asset balances up to the challenge of financing college education. While the macroeconomic effects of the unprecedented rate and volume of student borrowing are not yet fully understood, they certainly are magnified by debt's influence on later asset building. Policy changes can help to sever this linkage so that, in the absence of an asset-based financial aid system, the choices of indebted students are not dictated by debt.

#### Elimination of Disincentives for College Savings

The ability of low- and moderate-income families to build assets for their children's college education is constrained not only by their limited incomes and shortage of savings vehicles, but also by public policies that discourage savings. While policy institutions such as tax deductions for home mortgage interest, 401(k) plans, and state 529 plans subsidize the asset accumulation of those earning enough to have tax liabilities, current safety net and need-based financial aid policies serve as disincentives to asset accumulation in low-income households. For example, SNAP, which is designed to increase the food purchasing power of low-income households, still limits participants' savings in several states (Brooks & Wiedrich, 2012), and congressional action could reinstate strict asset limits in SNAP across the nation (Sprague, 2013). SNAP is not unique in imposing this asset test (Sherraden, 1991). In the TANF program, asset limits in some states are as low as \$1,000 per household. For most families in states where asset tests are still in place, liquid assets exceeding these thresholds can result in the denial of an application for assistance or termination of an existing case.

These rules affect students' educational achievement: Means-tested programs with strict asset limits, such as SNAP, reduce the odds that a child will enroll in college (Elliott, 2013b). Further, by making it very difficult for families to save for college, these asset restrictions serve to funnel students into the student loan market. More perniciously, participation in programs with asset limits conveys harmful messages to families; that saving is counterproductive and putting aside money for the future may imperil their well-

being today (Sherraden, 1991). Thus, students' expectations about college and about savings are shaped in ways that have lifelong implications.

It needn't be this way. Research shows that loosening asset tests around vehicle ownership, for example, increases asset holdings among SNAP recipients (McKernan, Ratcliffe, & Nam, 2007). This suggests that increasing asset limits results in low-income families accumulating assets (also see Nam, 2008). Encouraged by these outcomes, 37 states have eliminated asset limits entirely from SNAP eligibility determinations, and 23 states have eliminated asset limits for family Medicaid. Some states have specifically exempted the types of assets most likely to support children's educational outcomes, including 529 plan and IDAs. Eliminating asset limits promotes fairness, given the degree to which state and federal governments invest in subsidizing, through the tax code, the college savings of middle- and upper-income households. The prospect of increasing the asset holdings of low-income households simply by removing the artificial limits that punish them for saving should motivate policymakers looking for places to begin.

As with other means-tested supports, low-income students eligible for Pell Grants should not be penalized for having accumulated assets in pursuit of their college aspirations. Currently, financial aid eligibility determinations require that those assets held in students' own names be judged more harshly, despite evidence that suggests it is precisely these dedicated school assets that have the most significant effects on educational outcomes (Elliott & Beverly, 2011). To reduce these disincentives for students' savings, eligibility for means-tested grants and loans could be based solely on income, or assets held in special education accounts could be treated differently than overall net worth. There is some precedence for such a shift. Changes made to financial aid eligibility during the Obama Administration have facilitated access to Pell Grants for some low-income students without requiring disclosure of asset holdings, and there are serious proposals to allow applicants to populate their FAFSA with information available from IRS forms, eliminating the asset questions entirely for most needy students (Scott-Clayton & Dynarski, 2007). As of 2010, although 17 states exempted college savings held in 529 plans from financial aid determinations, these same asset protections were not afforded in the federal financial aid system, or to students whose savings were held in other vehicles (Clancy, Lasser, & Taake, 2010). Students who manage to set aside money for higher education despite having limited disposable income are poised for greater success in college. These assets should work in combination with financial aid, but policy first needs to stop punishing students for accumulating savings.

#### CREATING AN EARLY COMMITMENT, ASSET-BASED FINANCIAL AID SYSTEM

There is tremendous potential to improve the outcomes realized from our financial aid expenditures by changing how and when students interact with these systems. The Pell Grant program, for example, could incorporate a savings component, rather than issuing awards only at the time of college enrollment (College Board, 2013). In a shift to inclusion of an asset-based component, the specifics of this integration are negotiable, and multiple pathways are potentially compatible. To develop a savings program, institutions would need to inform children of their expected award earlier in their academic careers, based on at least a few years of the household's income, instead of only that of the child's senior year. This would leverage Pell Grants as early commitment programs, helping children to see college as a likelihood. On other dimensions, policymakers must confront choices, based on weighing the competing desires to leverage the power of the Pell Grant program's resources for asset-based approaches while not undercutting its historic role as a higher education safety net. For example, integrating savings into Pell

Grants could mean depositing a percentage of the award into a savings account, or Pell Grants could be entirely reimagined as vehicles not only for federal financial aid dollars but also additional deposits by families. While diverting only a portion of the Pell award to a savings account would enable verification of income eligibility as the student approaches college age, transforming Pell Grants into a savings program could amplify the redistributive potential of this critical investment; The same dollars put into accounts children can leverage, instead of held until one-time disbursement, could more adequately address the disadvantages experienced by those eligible for Pell assistance.

The Pell Grant is not the only avenue for leveraging financial aid early enough to make a real difference in educational equity. Universities could divert some of their scholarship money to children's savings accounts, for example, as could states. Localities like San Francisco, California, and Cuyahoga County, Ohio, are essentially taking this approach, investing money not simply in broadly promoting educational attainment of their students, but specifically as deposits into CSAs for very young children. On the national level, the federal government spends heavily to help students access college, largely through the student loan program. The potential to realize superior outcomes and promote equity through reinvesting even a portion of this spending is tremendous. It is possible, for example, to fund dedicated accounts for all U.S. children at birth for only \$3.25 billion in the first year (Cramer, 2006). In comparison, the federal cost of student loans (the subsidy provided within Stafford Loans, GradPLUS, and ParentPLUS programs) is expected to be \$36.5 billion in 2013 (Congressional Budget Office, 2012). These cost figures suggest that, at least initially, it may be possible for the United States to combine asset-based approaches to financial aid with a significant reliance on student loans, by merely redirecting a portion of the money expended to support borrowing. Similarly, depositing a portion of a projected Pell award in a student's account around eighth grade would not undermine the fiscal or ideological foundation of the Pell Grant program, but would increase its potential for positive educational effects through different outlays of existing dollars.<sup>14</sup>

#### CONSTRUCTION OF A PROGRESSIVE, LIFELONG, UNIVERSAL CSA STRUCTURE

Significantly, despite a lack of incentives, low-income households that save for college save a higher percentage of their incomes than wealthy families (Sallie Mae, 2013). Still, low-income families seldom manage to accumulate enough assets to stave off significant student debt. Saving families earning less than \$35,000 per year possess only a median of \$2,000 in college savings (Sallie Mae, 2009). Some of the greatest educational outcome effects of college savings are realized prior to college, as students approach enrollment with a different set of expectations and different academic engagement, and after college, when graduates who are savers fare differently than those who are borrowers. This suggests that the United States can only reap the potential effects of CSAs when they are structured so as to help families—all families—accumulate assets early enough to shape students' educational trajectories, and in amounts great enough to finance at least a considerable portion of college expenses. Today's savings vehicles are not up to these tasks.

Effective and equitable CSA policies should be progressive, lifelong, universal, and asset building. Universality is critical, since existing savings structures are largely meeting the needs of already advantaged individuals. If new CSAs fail to reach those not participating today, they will not add significant value to the college finance system (Cramer, 2010). To achieve universal access for low-income students and their families, some specific policy features are essential, including automatic enrollment (voluntary opt out provisions should be included), concerted outreach and education

strategies, special incentives for lower income households, and use of a widely available platform. A universal CSA would establish a savings account for each child at birth, seeded with an initial deposit. Only this approach can circumvent the barriers to account ownership that low-income families traditionally face.

Access to college-savings accounts for disadvantaged children can be provided through different vehicles, but research suggests that centrally administered systems, such as 529 plans, are needed to maintain a focus on equity. Fees and initial deposit requirements should be minimal and investment options kept simple to facilitate enrollment. To improve the equity in benefits available to families saving for college, 529s should be linked to state tax systems, 529 balances removed from financial aid eligibility calculations, and tax credits made refundable. Additionally, to overcome the chasm that currently separates economically disadvantaged families from these college savings opportunities, outreach efforts should be targeted to deliver messages that resonate with lower income aspiring college students and their parents (Lassar, Clancy, and McClure, 2010).

Essential to bridging the gap between 529 plans currently available, which largely subsidize the college savings of those who need little additional inducement to accumulate assets, and a true universal CSA system is a concerted public commitment to do so. Only with an explicit focus on promoting equity will policy features such as uniform national administration, low initial deposit requirements, adequate matching contributions, and integration with college preparation be included. Accounts should be structured so that even families with low levels of financial literacy benefit and feel ownership of CSAs.

In addition to keeping investment options uncomplicated, accounting should be streamlined, so that families can see their account balances grow (Goldberg, Friedman, & Boshara, 2010). Finally, the concept of universality does not mean that a CSA policy must deliver the same benefits to differently situated children and families. Instead, progressive CSA policy should strive to reduce disparities, through different matches or incentives for low-income families, while offering the power of savings to affect educational outcomes of all American children.

CSA programs also should be lifelong, keeping individuals connected to financial institutions and facilitating their savings and expenditures on important asset acquisitions, from birth to death (Cramer and Newville, 2009). These are features that 529s, education IRAs, and other restricted accounts are not well situated to deliver, but that are vital to build lasting financial security. Establishing these accounts in children's own names would serve to facilitate use over an extended time horizon and for flexible purposes, beginning with education and extending to homeownership and retirement, as well as reinforcing the higher education goal in children for whom this is the primary asset need (Elliott, 2013b), because these dedicated assets tend to have greater educational effects (Elliott, Destin, & Friedline, 2011).

Finally, CSAs should facilitate asset building, broadly understood to encompass not only financial savings but also the critical asset of human capital. Here, research suggests that accounts students can access while in school may increase their ability to overcome financial obstacles to success while building their competence to execute financial decision making (Elliott, 2012b), a critical competency for long-term financial security. Tiered account structures (with short-term, intermediate, and long-term college accounts) would allow low-income children to access to some of their assets as they progress in school, while other assets are held in reserve. While restrictions on asset use are important facilitators

of savings for higher income households as well as for those in and near poverty, CSAs can never function as successful tools to reduce disparity if the accounts are not available for children to use to their educational advantage, just as wealthier students use their families' resources.

#### **KEY POINTS**

- If the United States is to redeem the promise of the American dream and restore higher education as a path to economic mobility and financial security, changes in college financial aid policy are urgently needed. Rather than tweaking the details of current student loan policies, the United States should reexamine its approach to helping students prepare and pay for college, with an eye toward equity, adequacy, and ability to deliver promising educational outcomes.
- States should increase public funding of higher education, to slow the growth in college costs and reaffirm a collective commitment to education as a public good.
- Both states and the federal government should increase need-based aid, to overcome the barriers to enrollment and completion posed by high college costs.
- Especially as the United States transitions to an asset-based financial aid approach, policy can minimize the negative effects of debt, particularly by helping students and college graduates build assets even while they are borrowing. Doing this successfully may include addressing credit constraints to homeownership and supporting entry-level workers in saving for retirement.
- Policymakers should work quickly to remove disincentives to save by eliminating asset limits in means-tested public benefit programs and protecting at least some college savings from eligibility determination formulas for financial aid. Unless low-income households get the same message as wealthier ones about the importance of building assets, they cannot be expected to develop the same expectations and, ultimately, behaviors.
- Current financial aid policies can be reimagined as early commitment programs, to leverage the variable of time and build on student and family expectations of college attainment. For example, transforming Pell Grants into savings programs would funnel dollars into accounts children can leverage, thus not only helping them pay for college at the time of enrollment but also increasing the likelihood that they are prepared to succeed academically once there.
- A universal, progressive, lifelong Children's Savings Account (CSA) structure would help families build assets over a lifetime. Such a policy effort should build, wherever possible, on existing vehicles for college savings, and must adhere to principles of broad access and adequate support for disadvantaged families, if the accounts are to deliver the impact possible with assets for education.
- Innovations in CSAs should be explored for their potential to improve equity, as well, perhaps through tiered accounts that would not only help low-income students finance college but also equip them with tools with which to confront the need to invest in their human capital while in school.

#### ENDNOTES

<sup>1</sup>Throughout this report, assets are defined as the sum of savings, checking, money market accounts, certificates of deposit, stocks, bonds, mutual funds, 401(k)s, plan balances, IRAs, the cash value of whole life insurance policies, and tangible assets such as real estate and cars.

<sup>2</sup> You can download the report and find more information about it at <u>http://www.Save4Ed.com</u>.

<sup>3</sup> In the aggregate (subsidized and unsubsidized loans), dependent undergraduate students can borrow up to \$31,000 and independent undergraduate students can borrow up to \$57,500 total while an undergraduate. If a dependent student's parent is not eligible for a Plus loan, then the dependent student can also borrow up to \$57,500.

<sup>4</sup> For a good discussion of how politicians' and staffers' interests helped to shape the 1992 reauthorization of the Higher Education Act, see Hannah (1996).

<sup>5</sup> See discussion about role expectations in chapter four, Elliott (2013a).

<sup>6</sup>Hahn and Price defined college-qualified as having, "at least a 2.5 grade point average (GPA), taken a college preparatory curriculum, and completed Algebra I or II, Pre-calculus, Calculus and/or Trigonometry" (Hahn & Price, 2008, p. 4).

<sup>7</sup>College-qualified referred to high school graduates who had taken at least trigonometry.

<sup>8</sup> While no definitive definition of "soft skills" exists, these skills generally encompass the personality traits and communication skills that relate to a person's ability to interact effectively with coworkers and customers. In contrast, "hard skills" encompass the occupational requirements of a job—the ability to complete specific tasks, technical skills, and the like.

<sup>9</sup>The Child First Program, Section 529, enacted in 2011.

<sup>10</sup> For more information on the Kindergarten to College initiative, see <u>http://www.k2csf.org/</u>.

<sup>11</sup> See, for example, statements by the Cuyahoga County Executive, <u>http://executive.cuyahogacounty.us/en-US/113012-college-savings-account.aspx</u>

<sup>12</sup> As in the Department of Housing and Urban Development's Family Self-Sufficiency Program (Sard, 2001), graduates could be supported in building an asset base as part of their student loan repayment process, if an income-based repayment schedule diverted some of the increase in payments to a deposit or investment account. <sup>13</sup> For this argument, see U.S. Department of Education (2012).

<sup>14</sup> Kelchen and Goldrick-Rab (2013) find that if the Pell grant were awarded in eighth grade fewer than one in ten students would not remain qualified under current eligibility rules when they reached college age. Others have suggested Pell early-commitment programs could begin even earlier at age 11 or 12 (College Board, 2013). <sup>15</sup> The \$3,000-\$10,000 range is based on our best assessment of existing research. H owever, more research is

needed to confirm this threshold.

#### References

Adams, J. T. (1931). The epic of America. New York: NY: Blue Ribbon Books.

- Advisory Committee on Student Financial Assistance (ADSFA), (2006). *Mortgaging our future: How financial barriers* to college undercut America's global competitiveness. Retrieved from <u>http://www2.ed.gov/about/bdscomm/list/</u> <u>acsfa/mof.pdf</u>
- Advisory Committee on Student Financial Assistance (ADFSA), (2010). *The rising price of inequality: How inadequate grant aid limits college access and persistence*. Retrieved from ADSFA website: <u>http://chronicle.com/items/biz/pdf/acsfa\_rpi.pdf</u>
- Andriotis, A.M. (2012, August 10). How student loans could hit your social security. Washington, DC. Market Watch/ The Wall Street Journal. Retrieved from Market Watch website: <u>http://www.marketwatch.com/story/how-student-loans-could-hit-your-social-security-2012-08-10</u>
- Archibald, R., & Feldman, D. (2011). Why does college cost so much? New York: Oxford University Press.
- Aud, S., Hussar, W., Johnson, F., Kena, G., Roth, E., Manning, E., Wang, X., & Zhang, J. (2012). The condition of education 2012 (NCES 2012-045). Washington, DC: U.S. Department of Education. Retrieved from National Center for Education Statistics website: <u>http://nces.ed.gov/pubsearch</u>
- Avard, S., & Manton, E. (2005). The financial knowledge of college freshmen. *College Student Journal*, 39(2), 321-339.
- Axinn, W., Duncan, G. J., and Thornton, A. (1997). The effects of parents' income, wealth, and attitudes on children's completed schooling and self-esteem. In G. J. Duncan & J. Brooks-Gunn (Eds.), *Consequences of* growing up poor (pp. 518–540). New York: Russell Sage Foundation.
- Bailey, M. J., and Dynarski, S. (2011). Inequality in postsecondary education. In G. Duncan & R. Murnane (Eds.), *Whither opportunity*? (pp. 117–132). New York: Russell Sage Foundation.
- Baum, S., Ma, J., & Payea, K. (2010). Education pays off 2010: The benefits of higher education for individuals and society. New York: College Board. Retrieved from College Board website: <u>http://trends.collegeboard.org/sites/default/files/education-pays-2010-full-report.pdf</u>
- Baum, S., & Saunders, D. (1998). Life after debt: Results of the national student loan survey. Journal of Student Financial Aid, 28(3), 7-23.
- Baum, S. & Schwartz, S. (1988). The impact of student loans on borrowers: Consumption patterns and attitudes toward repayment. Mimeo, Boston: Tufts University. Evidence from the New England student loan survey.
- Becker, G. S. (1993). Nobel lecture: The economic way of looking at behavior. *Journal of Political Economy, 101*(31), 385-409.
- Boshara, R. (2003). American stakeholder account (Issue Brief). Washington, DC: New America Foundation. Retrieved at New America Foundation website: <u>http://www.newamerica.net/files/nafmigration/archive/</u> <u>Pub\_File\_1292\_1.pdf</u>

- Boshara, R. (2012). From asset building to balance sheets: A reflection on the first and next 20 years of federal assets policy (CSD Perspective 12-24). St. Louis, MO: Washington University, Center for Social Development. Retrieved at Washington University website: <u>http://csd.wustl.edu/Publications/Documents/P12-24.pdf</u>
- Boshara, R., & Emmons, W. (May 2013). After the fall: Rebuilding family balance sheets, rebuilding the economy. St. Louis, MO: Federal Reserve Bank of St. Louis. Retrieved from Federal Reserve Bank of St. Louis website: http://www.stlouisfed.org/publications/ar/2012/pages/ar12\_2a.cfm
- Bowen, W. G., Chingos, M. M., & McPherson, M. S. (2009). Crossing the finish line: Completing college at American's public universities. Princeton, NJ: Princeton University Press.
- Bricker, J., Kennickell, A., Moore, K., & Sabelhaus, J. (2012). Changes in U.S. family finances from 2007 to 2010: Evidence from the Survey of Consumer Finances. *Federal Reserve Bulletin*, 98(2), 1–80. Retrieved from Federal Reserve website: <u>http://www.federalreserve.gov/Pubs/Bulletin/2012/articles/scf/scf.htm</u>
- Brooks, J., and Wiedrich, K. (2012). *Assets and opportunity scorecard*. Retrieved from Center for Enterprise Development website: <u>http://assetsandopportunity.org/scorecard/</u>
- Brooks-Gunn, J., & Duncan, G. J. (1997). The effects of poverty on children. Children and Poverty, 7(2), 55-71.
- Bullard, J. (2012, February). Inflation targeting in the USA. Speech to the Union League Club of Chicago.
- Callender, C., & Jackson, J. (2005). Does the fear of debt deter students from higher education? *Journal of Social Policy*, 34 (4). pp. 509-540.
- Campaigne, D. A., & Hossler, D. (1998). How do loans affect the educational decisions of students? Access, aspirations, college choice, and persistence. In R. Fossey & M. Bateman (Eds.), *Condemning students to debt: College loans and public policy* (pp. 85-104). New York: Teachers College Press.
- Carnevale, A. P., & Rose, S. (2011). *The undereducated American*. Washington DC: Georgetown University, Center for Education and the Workforce. Retrieved from Georgetown University website: <u>http://www9.georgetown.edu/</u> <u>grad/gppi/hpi/cew/pdfs/undereducatedamerican.pdf</u>
- Carnevale, A. P., Rose, S. J., & Cheah, B. (2011). *The college payoff: Education, occupations, lifetime earnings*. Washington, DC: Georgetown University, Center on Education and the Workforce. Retrieved from Georgetown University website: <u>http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/collegepayoff-complete.pdf</u>
- Carnevale, A. P., Smith, N., & Strohl, J. (2010). *Help wanted: Projections of jobs and education requirements through* 2018. Washington, DC: Georgetown Center on Education and the Workforce. Retrieved from Georgetown University website: <u>http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/FullReport.pdf</u>
- Carnevale, A. P., & Strohl, J. (2010). How increasing college access is increasing inequality, and what to do about it. In R. Kahlenberg (Ed.), *Rewarding strivers: Helping low-income students succeed in college* (pp. 1–231). New York: Century Foundation Books.
- Carnevale, A. P., Strohl, J., & Melton, M. (2011). *What's it worth? The economic value of college majors*. Washington, DC: Georgetown University Center on Education and the Workforce. Retrieved from Georgetown University website: <u>http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/whatsitworth-complete.pdf</u>

- Case, Karl E., Quigley, J. M., and Shiller, R. J. (2013). *Wealth effects revisited 1975-2012*. National Bureau of Economic Research (NBER) Working Paper 18667. Retrievable at NBER website: <u>http://www.nber.org/papers/w18667</u>
- Clancy, M., Lasser, T., & Taake, K. (2010). *Saving for college: A policy primer*. St. Louis, MO: Washington University, Center for Social Development. Retrieved from Washington University website: <u>http://csd.</u> <u>wustl.edu/Publications/Documents/PB10-27.pdf</u>
- Cofer, J., & Somers, P. (1999). An analytical approach to understanding student debtload response. *Journal of Student Financial Aid*, 29(3), 25-44.
- Cofer, J., & Somers, P. (2000). A comparison of the influence of debtload on the persistence of students at public and private colleges. *Journal of Student Financial Aid*, *30*, 39-58.
- Cofer, J., & Somers, P. (2001). What influences persistence at two-year colleges? Community College Review, 29(3), 56-76.

College Board. (2012). *Trends in student aid 2012: Trends in higher education series*. New York: College Board. Retrievable at College Board website: <u>http://trends.collegeboard.org/student-aid</u>

- College Board. (2013). *Rethinking Pell grants*. New York: College Board. Retrieved at College Board website: <u>http://</u> media.collegeboard.com/digitalServices/pdf/advocacy/policycenter/advocacy-rethinking-pell-grants-report.pdf
- College Savings Plan Network (2012). 2012 mid-year report. Retrievable at: http://www.collegesavings.org/index.aspx
- Congressional Budget Office. (2012). CBO March 2012 baseline projections for the student loan and Pell grant programs. Retrieved from Congressional Budget Office website: <u>https://www.cbo.gov/sites/default/files/cbofiles/</u> <u>attachments/43054\_StudentLoanPellGrantPrograms.pdf</u>
- Conley, D. (1999). Being black, living in the red. Berkeley, CA: University of California Press.
- Cramer, R. (2006). *Net worth at birth*. Retrieved from New America Foundation website: <u>http://www.newamerica.net/</u><u>files/Net%20Worth%20at%20Birth%20Revised%20(PDF,%2044%20pp.).pdf</u>
- Cramer, R. (2010). The big lift: Federal policy efforts to create child development accounts. *Children and Youth Services Review*, *32*(11), 1538-1543.
- Cramer, R., & Newville, D. (2009). Children's savings accounts: The case for creating a lifelong savings platform at birth as a foundation for a "save-and-invest" economy (pp. 1-17). Retrieved from New America Foundation website: <u>http://assets.newamerica.net/sites/newamerica.net/files/policydocs/CSAPolicyRationale\_0.pdf</u>
- Cramer, R., O'Brien, R., Cooper, D., & Luengo-Prado, & M. (2009). A penny saved is mobility earned: Advancing economic mobility through savings. Retrieved from The Pew Trusts website: <u>http://www.pewtrusts.org/</u> <u>uploadedFiles/wwwpewtrustsorg/Reports/Economic\_Mobility/EMP\_Savings\_Report.pdf</u>
- Croxson, K., Daruvala, T., Dobbs, R., Forn, R., Lund, S., Manyika, J., and Roxburgh, C. (2012). *Debt and deleveraging: Uneven progress on the path to growth*. McKinsey Global Institute. Retrieved from McKinsey & Company website: <u>http://www.mckinsey.com/insights/global\_capital\_markets/uneven\_progress\_on\_the\_path\_to\_growth</u>

- Cuccaro-Alamin, S. & Choy, S. P. (1998). *Postsecondary financing strategies: Howundergraduates combine work, borrowing, and attendance*. Washington, DC: U.S. Department of Education, National Center for Education Statistics (NCES). Retrieved from Washington University website: <u>http://csd.wustl.edu/Publications/Documents/PB10-27.pdf</u>
- Cullen, J. (2003). The American dream: A short history of an idea that shaped a nation. Oxford University Press: New York
- Cunningham, A. F., & Kienzl, G. S. (2011). *Delinquency: The untold story of student loan borrowing*. Retrieved from IHEP website: <u>http://www.ihep.org/assets/files/publications/a-f/Delinquency-The Untold Story FINAL</u> <u>March\_2011.pdf</u>
- Cunningham, A.F. & Santiago, D. (2008). *Student aversion to borrowing: Who borrows and who doesn't*. Retrieved from Institute for Higher Education Policy and *Excelencia* in Education website: <u>http://www.ihep.org/assets/files/</u> <u>publications/s-z/StudentAversiontoBorrowing.pdf</u>
- Davies, S., & Guppy, N. (1997). Field of study, college selectivity, and student inequalities in higher education. *Social Forces*, 75(4), 1417–1438.
- Desrochers, D. M., Lenihan, C. M., & Wellman, J. V. (2010). *Trends in college spending: 1998–2008*. Washington, DC: Delta Cost Project. Retrieved from Delta Cost Project website: <u>http://www.deltacostproject.org/analyses/index.</u> <u>asp</u>
- Duncan, G. Y., Brooks-Gunn, J., & Smith, J. (1998). How much does childhood poverty affect the lifechances of children? *American Sociological Review*, 63(3), 406–423.
- Dynarski, S. (2002). Race, income, and the impact of merit aid. In Heller, D. E., & Marin, P. (Eds.), *Who should we help? The negative social consequences of merit scholarships* (pp. 73–91). Cambridge, MA: The Civil Rights Project at Harvard University.
- Dwyer, R. E., McCloud, L., & Hodson, R. (2012). Debt and graduation from American universities. *Social Forces*, 90(4), 1133–1155.
- Edmiston, K. D., Brooks, L., & Shepelwich, S. (2012). *Student loans: Overview and issues* (Working Paper 12-05). The Federal Reserve Bank of Kansas City Community Affairs Department. Retrieved from Federal Reserve Bank of Kansas City website: <u>http://www.kansascityfed.org/publicat/reswkpap/pdf/rwp%2012-05.pdf</u>
- Ehrenberg, R., Zhang, L., Levin, J. M. (2005). Crafting a class: The tradeoff between merit scholarships and enrolling lowerincome students. Retrieved from National Bureau of Economic Research website: <u>http://www.nber.org/</u> <u>papers/w11437</u>
- Elfin, M. (1993, October 4). Does college still pay? America's best colleges. U.S. News and World Report. Retrieved from http://www.usnews.com/usnews/culture/articles/931004/archive\_015884.htm
- Elliott, William (Ed.), (2013a). Building expectations, delivering results: Asset-based financial aid and the future of higher education. In *Biannual report on the assets and education field*. Lawrence, KS: Assets and Education Initiative (AEDI).
- Elliott, W. (2013b). The effects of economic instability on children's educational outcomes. *Children and Youth Services Review*, 35(3), p. 461-471.

- Elliott, W. (Ed.). (2013c). Evaluation of the 2011 GEAR UP priority: Lessons learned about integrating CSAs within GEAR UP. Lawrence, KS: Asset and Education Initiative.
- Elliott, W. (2013d). Small-dollar children's savings accounts and children's college outcomes. *Children and Youth Services Review*, 35(3), 572-585.
- Elliott, W., & Beverly, S. (2011). Staying on course: The effects of savings and assets on the college progress of young adults. *American Journal of Education*, 117(3), 343-374.
- Elliott, W., Destin, M., & Friedline, T. (2011). Taking stock of ten years of research on the relationship between assets and children's educational outcomes: Implications for theory, policy, and intervention. *Children and Youth Services Review*, 33, 2312-2328.
- Elliott, W., & Friedline, T (2013). You pay your share, we'll pay our share. *Economics of Education Review*, 33(1), 134-153.
- Elliott, W., Grinstein-Weiss, M., & Nam, I. (2013a). *Does outstanding student debt reduce asset accumulation?* (CSD Working Paper). St. Louis, MO: Washington University, Center for Social Development.
- Elliott, W., Grinstein-Weiss, M., & Nam, I. (2013b). *Is student debt compromising homeownership as a wealth building tool?* (CSD Working Paper). St. Louis, MO: Washington University, Center for Social Development.
- Elliott, W., Grinstein-Weiss, M., & Nam, I. (2013c). *Student debt and declining retirement savings*. (CSD Working Paper). St. Louis, MO: Washington University, Center for Social Development.
- Elliott, W. & Nam, I. (2013a). Is student debt jeopardizing the short-term financial health of U.S. households? *Review* 95(5), pp. 1-20.
- Elliott, W., & Nam, I. (2013b). *Reducing student loan debt through parents' college savings* (CSD Working Paper 13-07). St. Louis, MO: Washington University, Center for Social Development.
- Elliott, W., & Sherraden, M. S. (2013). Institutional facilitation and CSA effects (Chapter 2 Brief). In W. Elliott (Ed.), *Giving children a financial stake in college: Are CSAs a way to help maximize financial aid dollars?* (pp. 1-10). Lawrence, KS: Assets and Education Initiatives.
- Elliott, W., Song, Hyun-a, & Nam, I. (2013a). Small-dollar children's saving accounts and children's college outcomes by income level. *Children and Youth Services Review*, *35* (3), p. 560-571.
- Elliott, W., Song, Hyun-a, and Nam, I. (2013b). Small-dollar accounts, children's college outcomes and wilt. *Children* and Youth Services Review, 35 (3), p. 535-547.
- Emmons, W.R. (2012). Don't expect consumer spending to be the engine of economic growth it once was. The Regional Economist. St. Louis, MO: The Federal Reserve Bank. Retrieved from Federal Reserve Bank of St. Louis website: <u>http://www.stlouisfed.org/publications/re/articles/?id=2201</u>
- Federal Reserve Bank of New York (FRBNY) (2012). Student loan debt by age. Retrieved from FRBNYwebsite: <u>http://www.newyorkfed.org/studentloandebt/</u>

- Fenske, R. H., Porter, J. D., & DuBrock, C. P. (2000). Tracking financial aid and persistence of women, minority, and need students in science, engineering, and mathematics. *Research in Higher Education*, 41, 67–94. Retrievable at Springer website: <u>http://link.springer.com/article/10.1023%2FA%3A1007042413040</u>
- Ferguson, T. (1995). Golden rule: The investment theory of party competition and the logic of money-driven political systems. Chicago, IL: The University of Chicago Press.
- Friedline, T., & Elliott, W. (2013). Connections with banking institutions and diverse asset portfolios in young adulthood: Children as potential future investors. *Children and Youth Services Review*, *35*(6), 994-1006.
- Fry, R. (2012). A record one-in-five households now owe student loan debt. Washington, DC: Pew Research Center. Retrieved from the Pew Research Center website: <u>http://www.pewsocialtrends.org/2012/09/26/a-record-one-in-five-households-now-owe-student-loan-debt</u>
- Geiger, R. & Heller, D. (2011). Financial trends in higher education: The United States. Retrieved from University of Pennsylvania, Center for the Study of Higher Education website: <u>http://www.ed.psu.edu/educ/cshe/working-papers/WP%236</u>
- Gilens, M. (1999). Why Americans hate welfare: Race, media, and the politics of antipoverty policy. Chicago, IL: University of Chicago Press.
- Goldberg Jr., E. T., Friedman, B., & Boshara, R. (2010). CSA legislative challenges and opportunities. *Children and Youth Services Review*, 32(11), 1609-1616.
- Hahn, R. D., & Price, D. V. (2008). Promise lost: College-qualified students who don't enroll in college (pp. 1-44). Washington, DC: Institute for Higher Education Policy. Retrieved from IHEP website: <u>http://www.ihep.org/assets/files/publications/m-r/PromiseLostCollegeQualrpt.pdf</u>
- Hannah, S. B. (1996). The higher education act of 1992: Skills, constraints, and the politics of higher education. *The Journal of Higher Education*, 67(5), 498-527.
- Hansen, W. L. (1983). Impact of student financial aid on access. In Joseph Froomkin, ed., *The Crisis in Higher Education* (pp. 84-96). New York: Academy of Political Science.
- Hartman, R. R. (2013, May 23). Who makes money off your student loans? You might be surprised. *Yahoo News*. Retrieved from Yahoo website: <u>http://news.yahoo.com/blogs/lookout/makes-money-off-student-loans-might-surprised-093332073.html</u>
- Heller, D. E. (2002). The policy shift in state financial aid programs. In J. C. Smart (Ed.), Higher education: Handbook of theory and research (Vol. 17, pp. 221-261). New York: Agathon Press.
- Heller, D. E. (2008). The impact of student loans on college access. In S. Baum, M. McPherson, & P. Steele (Eds.), *The effectiveness of student aid policies: What the research tells us* (pp. 39–68). New York: College Board.

- Hiltonsmith, R. (2013). At what cost? How student debt reduces lifetime wealth. Retrieved from Demos website: http://www.demos.org/sites/default/files/publications/AtWhatCostFinal\_Demos.pdf
- Hira, T. K., Anderson, M. M. & Petersen, K. (2000), Students' perceptions of their education debt and its impact on life after graduation. *Journal of Student Financial Aid*, Vol. 30, pp. 7-19.
- Hochschild, J., & Scovronick, N. (2003). The American dream and the public schools. New York: Oxford University Press.
- Horn, L. J., Chen, X., & Chapman, C. (2003). Getting ready to pay for college: What students and their parents know about the cost of college tuition and what they are doing to find out. Washington, DC: National Center for Education Statistics (NCES), U.S. Department of Education. Retrieved from NCES website: <u>https://nces.ed.gov/pubs2003/2003030.pdf</u>
- Hoxby, C. M. & Avery, C. (2012). The missing "one-offs": The hidden supply of high-achieving, low income students. National Bureau of Economic Research Working Paper 18586. Retrievable at National Bureau of Economic Research website: <u>http://www.nber.org/papers/w18586</u>
- Hu, S., & St. John, E. P. (2001). Persistence in a public higher education system: Understanding racial and ethnic differences. *The Journal of Higher Education*, 72(2), 265-286.
- Huelsman, M. & Cunningham, A. F. (2013). Making sense of the system: Financial aid reform for the 21<sup>st</sup> century student. Washington, DC: Institute for Higher Education Policy. Retrieved at IHEP website: <u>http://www.ihep.org/assets/files/publications/m-r/reimagining-aid-design-and-delivery-final-january-2013.pdf</u>
- Institute for Higher Education Policy (IHEP). (1999). *State of diffusion: Defining student aid in an era of multiple purposes*. Retrieved from IHEP website: <u>http://www.ihep.org/assets/files/publications/s-z/StateDiffusion.pdf</u>
- Institute for Higher Education Policy (IHEP) and the Education Resources Institute (TERI). (1995)*College Debt* and the American Family. Washington, DC: The Institute for Higher Education Policy and The Education Resources Institute. Retrieved from IHEP website: <u>http://www.ihep.org/assets/files/publications/a-f/</u> <u>CollegeDebt.pdf</u>
- Isaacs, J.B. and Healy, O. (2012). The recession's ongoing impact on children, 2012. Washington, DC: The Urban Institute. Retrieved at The Urban Institute website: <u>http://www.urban.org/UploadedPDF/412713-The-Recessions-Ongoing-Impact-on-Children-2012.pdf</u>
- Ishitani, T. T. (2006). Studying attrition and degree completion behavior among first-generation college students in the United States. *The Journal of Higher Education*, 77(5), 861-865.
- Jesse, D. (2013, June 16). U.S. government projects to make record-high profits on student loans. USA Today. Retrieved from USA Today website: <u>http://www.usatoday.com/story/news/2013/06/16/us-government-projected-to-make-record-50b-in-student-loan-profit/2427443/</u>
- Jumpstart coalition for personal financial literacy (2006). *Financial literacy: improving education (Executive Summary)*. Retrieved as a download from Google website: <u>http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=w</u> <u>eb&cd=4&ved=0CD0QFjAD&url=http%3A%2F%2Fwww.rijumpstart.org%2Fmatriarch%2FDocumentView</u> <u>Direct.asp\_Q\_PageName\_E\_2006%2BExecutive%2BSummary%2BDraft%2BFinal&ei=Y18mUu2bHcLcqg</u> <u>HZmYHwBQ&usg=AFQjCNEdbdLWk0o7T2jI2JSVN5L0sNGvpQ&bvm=bv.51495398,d.aWM</u>
Kamenetz, Anya. 2006. Generation debt. New York: Penguin.

- Keister, M. P. (2000). Wealth in America. Cambridge, MA: Cambridge University Press.
- Kelderman, E. (2012, August 9). Student debt is growing but is not a national crisis, speakers say. *Chronicle of Higher Education*. Retrieved from <u>http://chronicle.com/article/Student-Debt-Is-Growing-but-Is/133517/</u>
- Kelchen, R. and Goldrick-Rab, S. (2013) Accelerating college knowledge: Examining the feasibility of a targeted early commitment Pell grant program. Institute for Research on Poverty (IRP), University of Wisconsin. Retrieved from IRP website: www.irp.wisc.edu/publications/dps/pdfs/dp140513.pdf
- Kim, D. (2007). The effects of loans on students' degree attainment: Differences by student and institutional characteristics. *Harvard Educational Review*, 77(1), 64-100.
- Knight, Jack. (1992). Institutions and social conflict. Cambridge, MA: Cambridge University Press.
- Knight, W. E., & Arnold, W. (2000, May). Toward a comprehensive predictive model of time to bachelor's degree attainment. Paper presented at the annual forum of the Association for Institutional Research, Cincinnati, OH. Retrieved at Bowling Green State University website: <u>http://www.bgsu.edu/downloads/finance/file19270.pdf</u>
- Krugman. (2012, March 12). Building a Caste Society. <u>*The New York Times*. Retrieved from New York Times website:</u> <u>http://krugman.blogs.nytimes.com/2012/03/12/building-a-caste-society/?\_r=0</u>
- Lam, L. T. (1999, May). Assessing financial aid impact on time-to-degree for nontransfer undergraduate students at a large urban public university. Paper presented at the annual forum of the Association for Institutional Research, Seattle, WA. Retrieved from Arizona State University website: <u>https://www.asu.edu/uoia/pubs/papers/lam.pdf</u>
- Lassar, T., Clancy, M., & McClure, S. (2010). Toward more inclusive college saving plans. St. Louis, MO: Center for Social Development, Washington University. Retrieved from Washington University website: <u>http://csd.</u> wustl.edu/Publications/Documents/PR10-02.pdf
- Lerman, R. & McKernan, S. M. (2008). The effects of holding assets on social and economic outcomes of families: A review of theory and evidence. U. S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (ASPE). Retrieved from ASPE website: <u>http://aspe.hhs.gov/hsp/07/poorfinances/Effects/index.shtml</u>
- Loke, V., & Sherraden, M. (2009). Building assets from birth: A global comparison of child development account policies. *International Journal of Social Welfare*, 18(2), 119-129.
- Long, T. B. (2010). Making college affordable by improving aid policy. Issues in Science and Technology. Washington, DC: National Academy of Sciences, Division of Behavioral and Social Sciences and Education. Retrieved at <a href="http://www.docstoc.com/docs/51701238/Making-College-Affordable-by-Improving-Aid-Policy">http://www.docstoc.com/docs/51701238/Making-College-Affordable-by-Improving-Aid-Policy</a>
- Lusardi, A., Schneider, D., & Tufano, P. (2011). Financially fragile households: Evidence and implications. *Brookings Papers on Economic Activity, Spring 2011*, 83-150. Retrieved at Brookings Institution website: <u>http://www.brookings.edu/~/media/Projects/BPEA/Spring%202011/2011a\_bpea\_lusardi.pdf</u>
- Maag, C. (2012, July 19). At middle age, is college worth it? *MSN Money*. Retrieved from MSN website: <u>http://money</u>. <u>msn.com/college-savings/at-middle-age-is-college-worth-it-credit.aspx</u>

- Maag, E., and Fitzpatrick, K. (2004). *Federal financial aid for higher education: Programs and prospects*. Washington, DC. Urban Institute. Retrieved from Urban Institute website: <u>http://www.urban.org/UploadedPDF/410996</u> <u>federal\_financial\_aid.pdf</u>
- Mann, H. (1848). Twelfth annual report of the Board of Education. Boston: MA: Dutton and Wentworth.
- Marin, P. (2002). Merit scholarships and the outlook for equal opportunity in higher education. In D. E. Heller & P.
  Marin (Eds.), Who should we help? The negative social consequences of merit scholarships (pp. 109-114). Cambridge, MA: The Civil RightsProject at Harvard University.
- Martin, A. (2012, September 9). Debt collectors cashing in on student loans. *New York Times*. Retrieved from The New York Times website: <u>http://www.nytimes.com/2012/09/09/business/once-a-student-now-dogged-by-collection-agencies.html?hp</u>
- McDonough, P. M. (1997). Choosing colleges: How social class and schools structure opportunity. Albany: State University of New York Press.
- McKernan, S-M., Ratcliffe, C., & Nam, Y. (2007). The effects of welfare and IDA program rules on the asset holdings of low-income families. (A Report in the Series *Poor Finances: Assets and Low-Income Households*).
   Washington, DC: The Urban Institute. Retrieved from the Urban Institute website: <u>http://www.urban.org/UploadedPDF/411558\_ida\_program.pdf</u>.
- McKernan, S.-M., & Sherraden, M. (Eds.). (2008). Asset building and low-income families. Washington, DC: The Urban Institute Press.
- Mendoza, P. (2012). The effect of debt and working while enrolled on baccalaureate completion: A counterfactual analysis. *Journal of Student Financial Aid*, 42(2), 25-59.
- Minicozzi, A. (2005). The short term effect of educational debt on job decisions. *Economics of Education Review*, 24(4), 417-430. Retrievable at Science Direct website: <u>http://www.sciencedirect.com/science/article/pii/</u> S0272775704001177
- Mishel, L., Bivens, J., Gould, E., & Shierholz, H. (2013). *The state of working America 12th Edition*. Ithaca: NY: Economic Policy Institute Book, Cornell University Press.
- Mishory, J., & O'Sullivan, R. (2012). Denied? The impact of student debt on the ability to buy a house. Young Invincibles. Retrieved from the YI Network: <u>http://younginvincibles.org/wp-content/uploads/2012/08/</u> Denied-The-Impact-of-Student-Debt-on-the-Ability-to-Buy-a-House-8.14.12.pdf
- Nam, Y. (2008). Welfare reform and asset accumulation: Asset limit changes, financial assets and vehicle ownership. *Social Science Quarterly*, *89*(1), 135-154.
- National Association of Realtors (2011). Profile of home buyers and sellers 2011. Retrieved from National Association of Realtors website: <u>http://www.realtor.org/sites/default/files/reports/2011/profile-of-home-buyers-and-sellers-2011-highlights.pdf</u>
- National Association of State Student Grant & Aid Programs. (2001). NASSGAP 31st annual survey report. Albany: New York State Higher Education Services Corporation. Retrievable at NASSGAP website: <u>http://www.nassgap.org/viewrepository.aspx?categoryID=3#</u>

- North, D. (1990). *Institutions, institutional change, and economic performance*. Cambridge, MA: Cambridge University Press.
- Oliff, P., Palacios, V., Johnson, I., & Leachman, M. (2013). Recent deep state higher education cuts may harm students and the economy for years to come. Washington, DC: Center on Budget and Policy Priorities (CBPP). Retrievable at CBPP website: <u>http://www.cbpp.org/files/3-19-13sfp.pdf</u>
- Oliver, M. L., & Shapiro, T. M. (1995). Black wealth, white wealth: A new perspective on racial inequality. New York, NY: Routledge.
- Paulsen, M. B., & St. John, E. P. (2002). Social class and college costs: Examining the financial nexus between college choice and persistence. *Journal of Higher Education*, 73(3), 189-236.
- Pear, R. (2013, August 22). Median income rises, but is still 6% below level at start of recession in '07. *The New York Times*. Retrieved from The New York Times website: <u>http://www.nytimes.com/2013/08/22/us/politics/us-median-income-rises-but-is-still-6-below-its-2007-peak.html? r=0</u>
- Perna, L. W. (2000). Differences in the decision to attend college among african americans, hispanics, and whites. *The Journal of Higher Education*, 71(2), 117-141. Retrievable at JSTOR website: <u>http://www.jstor.org/discover/10.23</u> 07/2649245?uid=3739704&uid=2134&uid=2&uid=70&uid=4&uid=3739256&sid=21102819913487
- Rank, M. R. (1994). Living on the edge: The realities of welfare in America. New York, NY: Columbia University Press.
- Reyes, J. W. (2008). College financial aid rules and the allocation of savings. *Education Economics*, *16*(2), 7–189. Retrievable at Taylor & Francis online website: <u>http://www.tandfonline.com/doi/abs/10.1080/</u>09645290701383605#.Umw\_ehai48U
- Richards, K. V. & Thyer, B. A. (2011). Does individual development account participation help the poor? A review. *Research on Social Work Practice*, *21*(3), 348-362.
- Rothstein, J. & Rouse, C. E. (2011). Constrained after college: Student loans and early-career occupational choices. *Journal of Public Economics*, 95 (1-2), 149-163. Retrievable at Journal of Public Economics website: <u>http://www.sciencedirect.com/science/article/pii/S0047272710001337</u>
- Rudolph, R. (1990). The American college and university: A history. Athens: University of GeorgiaPress.
- Sallie Mae. (2009). How America saves. Retrieved from website: <u>https://www.salliemae.com/assets/Core/how-America-saves/GCR2123HowAmericaSavesforCollege2009Report.pdf</u>
- Sallie Mae. (2012). *How America pays for college*. Newark, DE: Sallie Mae. Retrieved from website: <u>https://www.salliemae.com/assets/Core/how-America-pays/HowAmericaPays2012.pdf</u>
- Sanchez, M. (2012, December 7). Student loan debt isn't a crisis. *Kansas City Star*. Retrieved from Kansas City Star website: <u>http://www.kansascity.com/2012/12/07/3955029/student-loan-debt-isnt-a-crisis.html</u>
- Sard, B. (2001). The family self-sufficiency program: HUD's best kept secret for promoting employment and asset growth. Washington, DC: Center on Budget and Policy Priorities (CBPP). Retrieved from CBPP website: http://www.cbpp.org/archiveSite/4-12-01hous.pdf

- Selingo, J. (2003, November 21). HOPE wanes for Georgia's merit-based scholarships. *Chronicle of Higher Education*, p. A1. Retrieved from Chronicle of Higher Education website: <u>https://chronicle.com/article/Hope-Wanes-for-Georgias/15380/</u>
- Shand, J. M. (2007). The impact of early-life debt on the homeownership rates of young households: An empirical investigation. Federal Deposit Insurance Corporation (FDIC) Retrieved from FDIC website: <u>http://www.fdic.gov/bank/analytical/cfr/2008/jan/CFR\_SS\_2008Shand.pdf</u>
- Shapiro, T. M. (2004). *The hidden cost of being African American: How wealth perpetuates inequalities*. New York: Oxford University Press.
- Shapiro, T. M, Meschede, T., & Osoro, S. (2013). *Widening roots of the racial wealth gap: Explaining the black-white economic divide*. Institute on Assets and Social Policy, (IASP) Brandeis University. Retrieved from IASP website: <u>http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf</u>
- Sherraden, M. (1990). Stakeholding: Notes on the theory of welfare based assets. Social Service Review, 64(4), 581-601.
- Sherraden, M. (1991). Assets and the poor: A new American welfare policy. Armonk, NY: M.E. Sharpe.
- Sherraden, M., Johnson, L., Clancy, M., Beverly, S., Schreiner, M., Zhan, M., et al. (2000). Saving patterns in IDA programs. (CSD Report 00-34). St. Louis, MO: Washington University, Center for Social Development. Retrieved from Washington University website: <u>http://csd.wustl.edu/Publications/Documents/</u> <u>ADDReport 2000.pdf</u>
- Shierholz, H., Sabadish, N., & Finio, N. (2013). The class of 2013: Young graduates still face dim job prospects. Washington, DC: The Economic Policy Institute (EPI). Retrieved from EPI website: <u>http://www.epi.org/files/2013/Class-of-2013-graduates-job-prospects.pdf</u>
- Simpson, L., Smith, R., Taylor, L. & Chadd, J. (2012). College debt: An exploratory study of risk factors among college freshmen. *Journal of Student Financial Aid*, 42(1), 16.
- Somon, D., & Cheema, A. (2002). The effect of credit on spending decisions: the role of the credit limit and credibility. *Marketing Science*, 27, 32–53.
- St. John, E. P., Andrieu, S., Oescher, J., & Starkey, J. B. (1994). The influence of student aid on within-year persistence by traditional college-age students in four-year colleges. *Research in Higher Education*, 35, 455-480. Retrievable at JSTOR website: <u>http://www.jstor.org/discover/10.2307/40196136?uid=3739704&uid=2&uid=4&uid=37392</u> <u>56&sid=21102819913487</u>
- Taylor, P., Kochhar, R., Fry, R., Velasco, G. and Motel, S. (2011). Wealth gaps rise to record highs between whites, blacks, hispanics. Washington, DC: Pew Research Center. Retrieved from Pew Social & Demographic Trends website: <u>http://www.pewsocialtrends.org/2011/07/26/wealth-gaps-rise-to-record-highs-between-whitesblacks-hispanics/</u>
- Tinto, V. (1987). *Leaving college: Rethinking the causes and cures for student attrition*. Chicago, IL: University of Chicago Press.

- Urahn, S. K., Currier, D. E., Wechsler, L., Wilson, D., & Colbert, D. (2012). Pursuing the American dream: Economic mobility across generations. Washington, D.C.: The Pew Charitable Trusts. Retrieved from Pew Trusts website: <u>http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic\_Mobility/Pursuing\_American\_Dream.pdf</u>
- U.S. Department of Education. (2012). *Race to the top: College affordability and completion, fiscal year 2013 budget request.* Retrieved from Department of Education website: <u>http://www2.ed.gov/about/overview/budget/budget13/justifications/t-rtt.pdf</u>
- U.S. Department of Health and Human Services, Administration for Children and Families (ACF), Office of Community Services (2012). *Assets for independence program summary*. Retrieved from ACF website: <u>http://www.acf.hhs.gov/programs/ocs/resource/assets-for-independence-program-summary</u>
- U.S. General Accounting Office (GAO). (1994). *Higher education: Grant effectiveness at increasing minority chances of graduating* (Publication HEHS-94-168). Retrieved from GAO website: <u>http://www.gao.gov/</u> <u>assets/110/105557.pdf</u>
- U.S. General Accounting Office (GAO) (2011). Federal student loans: Patterns in tuition, enrollment and Federal Stafford loan borrowing up to the 2007—2008 loan limit increase. (GAO Publication GAO-11-470R). Retrieved from http://www.gao.gov/assets/100/97510.pdf
- U.S. General Accounting Office (GAO). (1995). Restructuring student aid could reduce low-income student dropout rate. (Publication HEHS-95-48). Retrieved from GAO website: http://www.gao.gov/archive/1995/he9548.pdf
- Woo, J., H., & Choy, S., P. (2011). Merit aid for undergraduates: Trends from 1995-96 to 2007-08. (Vol. NCES 2012-160). Washington: U.S. Department of Education, National Center for Education Statistics (NCES).
  Retrieved from NCES website: <u>http://nces.ed.gov/pubs2012/2012160.pdf</u>
- World Bank. (2002). Empowerment and poverty reduction: A sourcebook. Washington, DC: The World Bank. Retrieved from <u>http://www.scribd.com/doc/15739418/Empowerment-and-Poverty-Reduction-Messages-from-the-1990s</u>
- Zhan, M. (2012). The impact of youth debt on college graduation (CSD Working Paper 12-11). St. Louis, MO:
  Washington University, Center for Social Development and University of Kansas, School of Social Welfare.
  Retrieved from Washington University website: <u>http://csd.wustl.edu/Publications/Documents/WP12-11.pdf</u>
- Zhan, M. (2013). Youth debt and college graduation: Differences by race/ethnicity (CSD Working Paper No. 13-08).
  St. Louis, MO: Washington University in St. Louis, Center for Social Development. Retrieved from Washington University website: <u>http://csd.wustl.edu/Publications/Documents/WP13-08.pdf</u>
- Zhan, M., & Sherraden, M. (2011). Assets and liabilities, educational expectations, and children's college degree attainment. *Children and Youth Services Review 33*(6), 846-854. Retrieved from Washington University website: <u>http://csd.wustl.edu/Publications/Documents/WP09-60.pdf</u>





Project supported by:



Assets and Education Initiative | University of Kansas School of Social Welfare Twente Hall, Office 309 | 1545 Lilac Lane | Lawrence, KS 66044-3184 785-864-2283 | www.aedi.ku.edu | www. Save2LimitDebt.com