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Parents' Wealth Helps Explain Racial Disparities in Student Loan Debt

By Fenaba R. Addo

The amount of educational loans that students of color are taking out to finance their higher education may be contributing to racial wealth gaps.

Federal financial aid decisions are primarily based on income, not wealth, and family wealth is an important resource for discharging student debt. Therefore, existing racial wealth disparities and soaring higher education costs may actually replicate racial wealth disparities across generations by driving racial disparities in student loan debt load and repayment.

If today's black young adults who attended college are the next generation of the black middle class, then they are not very different than their predecessors. They have made significant gains in educational attainment but don't have the wealth profile to match. This disparity appears to stem from the educational debt acquired to pursue their education. College is an increasingly expensive investment for students and their families, who have had to shoulder a growing share of the college cost burden.

And while studies indicate that the lifetime earnings of those with a college degree continue to outpace those of individuals without,¹ black students appear to be taking on a great deal more financial risk in pursuit of higher education. They tend to rely on student loans more than whites, have higher debt burdens, express more concern about the affordability of loan payments, and are more likely to default.²

Disparities in Transfers and Composition of Wealth Matter

Given that the average net wealth of college-educated blacks is less than a tenth that of whites,³ white families are better able to draw from their wealth to pay

for college, transfer their wealth to their children, and protect their children from debt than are black families. The proportion of families who provide assistance and the average amounts that they are able to give also differ considerably. An analysis of data from a youth survey⁴ found that 58 percent of black young adults reported that their parents contributed an average of \$4,200 over the course of their college career. That compares to an average of \$12,000 given by 72 percent of white families. (See Table 1.)

Black parents compose only 3.2 percent of the top wealth distribution quintile, defined as those holding at least \$191,000. These families have substantially less home equity and only half as much in financial assets as white counterparts at similar points in the distributions. (See Table 2.) Parents at the high end of the black wealth distribution may be less able to transfer wealth to their children than are their white counterparts. This may be due in part to the black parents having fewer liquid assets, such as stocks, bonds and savings, which can be passed more easily to the next generation.

Racial Wealth Gaps Appear Early

As early as age 25, racial wealth gaps begin to emerge. In the age 25 asset survey,⁵ college-educated white young adults reported having approximately \$17,000 more wealth than black young adults who had attended college. We calculated that a \$10,000 increase in young adult net wealth is associated with 7.6 percent less student loan debt. Young adults with high net wealth may have benefited from transfers of wealth from their parents and subsequently may be in a better position

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to pay down their student loans quicker.

This analysis suggests that social class positioning defined by familial wealth may not persist for this recent cohort of young adults, and especially not for black children from middle-class and higher net wealth households. They, like their parents' and grandparents' generations, might find their pathway to middle-class status, financial security, and stability to be a tenuous one. If student loan debt is more burdensome and consequential for black young adults, one of the unintended consequences of rising college costs may be that the long unstable and fragile position of the black middle class will persist. ■

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By the Numbers

\$4,200	Average amount parents of majority of black students contributed for college
\$12,000	Average amount parents of majority of white students contributed for college
\$17,000	Amount of greater wealth college-educated white young adults had compared to black young adults by age 25
7.6 percent	Amount of decrease in student debt associated with \$10,000 increase in young adult net wealth
3.2 percent	Black parents in top wealth quintile

TABLE 1

Finances by Race

<i>Student Loan Debt</i>			
	<i>Full Sample</i>	<i>White</i>	<i>Black</i>
Young Adult Has Debt	41%	41%	45%
Average Debt among Holders	\$22,051*	\$21,956	\$19,654
<i>Young Adult Status at Age 25</i>			
Net Worth	\$32,149	\$37,182	\$20,186
Parent Contributed to College Cost	69%	72%	58%
Total Parent Contribution over College Career	\$10,384	\$11,679	\$4,217
<i>Parents' Wealth</i>			
Net Worth	\$149,842	\$174,871	\$48,494
Median	\$73,333	\$101,377	\$9,498
Financial Assets	\$25,819	\$31,001	\$6,363
Home Equity	\$62,416	\$72,866	\$19,377
Retirement Accounts	\$41,387	\$48,211	\$13,279
Has College Saving Account (CSA)	10%	11%	6%
Amount among CSA Holders	\$38,776	\$40,786	\$27,068
Other Assets	\$8,385	\$11,231	\$4,092

NOTES: Dollar figures are rounded to the nearest dollar. The number of white young adults responding was 3,258, and the number of black young adults responding was 1,244. All averages are statistically different at the 5 percent level by race, indicating that the differences are not a result of random chance.

SOURCES: 1997 cohort of the National Longitudinal Survey of Youth and author's analysis.

*Includes groups other than young white and young black adults.

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TABLE 2

Average Holdings by Types of Wealth among Parents in the Highest Quintile

Holdings	Average Amount (\$)	
	White	Black
Home Equity	154,627	92,555*
Retirement Accounts	116,960	91,915
Financial Assets	81,827	46,579*
College Savings Account (CSA)	12,323	14,023
Other Assets	30,374	51,655

NOTES: Highest quintile includes those with \$191,180-plus in wealth. The number of people responding was 1,069.

SOURCES: 1997 cohort of the National Longitudinal Survey of Youth and author's analysis.

*Statistically different by race at the 5 percent level.

ENDNOTES

- ¹ See Jones and Schmitt.
- ² See Jackson and Reynolds.
- ³ See Emmons and Noeth.
- ⁴ Data are from the 1997 cohort of the National Longitudinal Survey of Youth (NLSY97) <https://www.bls.gov/nls/nlsy97.htm>. The NLSY97 is an annual study following a representative sample of youth living in the U.S. who were 12 to 16 years old as of Dec. 31, 1996. The current analysis uses annual data from 1997-2011 and 2013.
- ⁵ Data from the NLSY97 Asset 25 section was collected in the interview year at the time or after the young people reached age 25.

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