Protecting Students from Student Loan Debt: Can Parents' College Savings Help?

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Context: High College Costs and Shifting Burdens

- College costs high and rising
- Cost burden shifting from society to students
  - Decreased public funding
  - Eroding value of financial aid and shift to merit-based assistance
  - Growing student debt
- Sticker shock can affect enrollment decisions, and reliance on student loans can deter the loan-averse.

Why Debt Matters

- Loans may not support educational outcomes
  - High debt not correlated with college completion
- High debt loads threaten household balance sheets by constraining asset accumulation and increasing liabilities
  - Households with outstanding student debt have 63% less net worth, 40% less home equity, and 52% less retirement savings (Elliott & Lewis, 2013).

Savings as Complement

- Assets associated with increased college enrollment, persistence, and graduation
  - Students 3X more likely to enroll and 4X more likely to graduate with even $500 in college savings (Elliott, 2013).
- Having savings improves post-college financial well-being
  - Those with savings as adolescents 2X more likely to have savings accounts or credit cards and 4X more likely to own stocks (Friedline, 2013).
- *But we have not known if these effects might be negated by high student debt*

ASSETS & EDUCATION INITIATIVE

This study asks, “Can Parental Savings Reduce Student Debt?”

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Methods

- Data
  - Educational Longitudinal Survey (ELS)
  - Began in 2002 when students were in 10th grade
  - Follow-up waves in 2004, 2006, and 2012

Methods

- Study sample
  - Restricted to student who responded to questions in both the 2002 and the 2012 data sets
  - Graduated from 4yr college but did not go to graduate school
  - Students are about age 26 in 2012
  - (N = 2,992)

Methods

- Controls
  - Independent variables are mainly drawn from the 2002 and 2004 waves.
  - Controls: Race, gender, student high school GPA, student perceptions of college costs, financial aid availability, amount student expected to borrow, household income, parents' education, number of siblings, college counseling, percentage of students from high school who attend a four-year college, applied for financial aid, out of state student, dependent status, and college selectivity

Methods

- Variable of interest
  - Parents' savings for student's college
- Outcome variable
  - Student debt (yes/no)
  - Amount of student debt (continuous)
  - Student debt threshold
    - $0-$1,999
    - $2,000 - $19,999
    - $20,000 or more

Analysis Plan

- Propensity score matching
  - Two types used
    - 1:1 Nearest neighbor with capilar match
    - Average treatment effect (ATE)
  - Complete balance was achieved
- Multilevel modeling was used (logistic, linear, and multinomial regressions) due to children being nested in schools
  - Base model: intraclass correlation coefficient was .142
- Estimated models in STATA

Descriptive Results

- A majority perceived that financial aid was very important for choosing a college and that they would have to choose a college based on cost.
- Forty-nine percent of parents had put aside savings to pay for college.
- Most college graduates received their degrees from public or private not-for-profit colleges, instead of for-profit institutions.
- Among these four-year college graduates, 69% have student loan debt, with an average debt of $23,698.

Student Loan Debt Results

- Potential risk factors of student loan debt (yes/no) include:
  - Perception that student financial aid is very important
  - Expecting to have student loan debt of at least $2,000
  - Living in a moderate income family ($35,001-$75,000) as a sophomore
  - Having applied for financial aid
  - Attending a private college (private not for-profit or for–profit)

Amount of Student Loan Debt Results

- Graduates with parents who had put aside college savings for them have about *$3,200 less* student loan debt than those who did not.
- Those who perceived that student financial aid would be very important for picking out a college have ~*$4,100 more* in student loan debt than if they did not.
- Students who expected to borrow $2,000 - $19,999 have ~*$14,000 more* student loan debt; those who expected to borrow $20,000 or more have ~$31,000 more in student loan debt, compared to graduates who expected to borrow $2,000 or less.
- Those who applied for financial aid have about *$4,600 more* in student loan debt than those who did not.
- Graduates who attend a private not-for-profit college have about $7000 more student loan debt and graduates who attend a private for-profit college have ~*$16,000 more* when compared to a four-year college graduates who attend a public four-year college.

Student Loan Debt Threshold Results

- Among the variables controlled for, having parents with college savings is the only factor that reduces the odds of owing less than $2,000 category versus $2,000 - $19,999.
- Having attended a private not-for-profit in contrast to a public college is associated with being about 70% as likely to have student debt of $20,000 or more v. less than $2,000.
- Having attended a private for-profit instead of a public college is associated with being close to two and half times as likely to have student debt of $20,000 or more, v. $2,000 - $19,999.
- Four-year college graduates who applied for financial aid are about two times as likely to be in the $2,000 - $19,999 category and 78% more likely to be in the $20,000 or more category, v. the less than $2,000 category when compared to four-year college graduates who did not apply for financial aid.
- Four-year graduates who perceived that financial aid is very important are about 64 percent as likely to be in the $20,000 or more group as in the less than $2,000 group. They are about 12 times as likely to have $20,000 or more in student loan debt v. having less than $2,000 if they expected to borrow $2,000 -$19,999 and about 29 times as likely if they expected to borrow $20,000 or more contrasted to if they expected to borrow less than $2,000.
- Four-year college graduates who lived in middle-income families are 46 percent more likely to be in the $20,000 or more category of student loan debt than they are to be in the less than $2,000 category when compared to four-year college graduates who lived in low-income families as sophomores.

Limitations

- Even with propensity score matching, we cannot completely rule out that some unobserved factor actually explains the effects of parents' savings on student loan debt.
- Here we examine whether parents have savings or not; future research may want to examine the amount of savings.
- Unable to control for household net worth

Discussion

- Parents' college savings may reduce the odds of a four-year college graduate having student debt:
  - Graduates with parents who had savings for them have about $3,200 less debt. When four-year college graduates have parents who save for their college education, the odds of taking out what might be thought of as 'high dollar' student loans ($20,000+) are reduced.
- While we did not find any other factors that reduced the odds of graduates having student debt, several factors stand out as potential risk factors:
  - Four-year graduates who grew up in moderate-income families had a higher odds of having student debt than those who grew up in low-income families.
  - If students are inclined to borrow, they may have much higher odds of borrowing to pay for college.
  - Students who attend private for-profit colleges may have higher odds of having student loan debt. Here, four-year college graduates who attend a private for-profit college have about $16,436 more student debt than graduates who attend a public college.

Policy Implications

- If parental college savings are one of the few ways to reduce assumption of high-dollar debt, but parental savings are currently inadequate, policies that would facilitate and subsidize parental savings may be worthwhile investments.
  - Tax incentives, including reforms to improve refundability and timing
  - Better access to workable savings vehicles, including changes to 529 plans
- Children's Savings Accounts (CSAs)
  - Parents need new tools to meet the challenge of saving as an alternative to student borrowing.
  - Those households with the greatest need for education savings—low- and moderate-income households –are those least equipped to rise to the challenge of educational asset accumulation.
  - Findings that parents' college savings can be part of a strategy to help reduce college debt amounts may help make the public policy case for CSAs.
  - Even if small-dollar savings accounts for college improve educational outcomes, CSAs must be adequately funded to be effective in reducing debt, including through redistributive measures (e.g. initial deposits, match, and incentives).