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RESEARCH BRIEF

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Assets and Liabilities, Educational Expectations, and Children's College Degree Attainment

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Context and Research Questions

College completion is a critical determinant of economic and social well-being (Hertz, 2006; Kane, 2004). With escalating costs of higher education (College Board, 2008), household savings and other assets may play an important role in financing children's college education. Current income is usually insufficient to cover college costs in most families, who believe that they must save for college for their children. Furthermore, effects of household savings and asset holding may extend beyond financial security and affect long-term development of children through investments in education, and through changes in outlook, motivation, and achievement (Sherraden, 1991).

Building on an emerging area of research, this study uses a longitudinal data set and controls for many other variables to examine household assets (financial and nonfinancial) and liabilities (secured and unsecured)[1] and their association with later attainment of a bachelor's degree. We also investigate relationships of assets and liabilities with educational expectations of both parents and children, which, in turn, may be linked to college completion.

Research Methods

Data are drawn from the National Longitudinal Survey of Youth (NLSY79) main file and the child/young adult data sets. The study sample (n=750) includes children who were 11 to 14 years old in 1994. Data related to parental assets, expectations, and other parent characteristics are taken from the survey year 1994, and children's college graduation is measured in 2006, when these children were 23 to 26 years old. In this way, a temporal order is established between assets/liabilities, expectations, and children's later college graduation.

A series of regression models are estimated to address the research questions. The first set of analyses includes logistic regressions to examine associations between assets and liabilities with children's probability of graduating from college. The second set of analyses consists of OLS regressions to examine associations between assets and liabilities and parental and child expectations. In both sets of analyses, alternative models are tested in order to understand how model specifications are different with and without assets and liabilities. Assets and liabilities

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are added sequentially to the initial model, which includes only income and control variables. These procedures enable us to detail the statistical effects of income, assets, and liabilities in different theoretical statements and model specifications.

Also, in order to test possible links between educational expectations and college completion, the expectations of both parents and children are entered last into the model on college graduation. If associations between assets/liabilities and college graduation are reduced or removed after the expectation variables are added, this is evidence that such associations may operate in part through educational expectations (Baron & Kenny, 1986).

Findings

Controlling for many other variables, findings indicate that greater parental assets, both financial and nonfinancial, are associated with a later increase in the probability of a child completing college.

Secured debt is also positively related to children's college graduation, but only before assets are included. When assets are added to the model, secured debt is no longer statistically significant. Overall, secured debt may be a marker for greater economic sophistication and capacity, and the positive influence of secured debt may occur only when a family has the economic capacity to service the debt (e.g., as in a home mortgage), and when the value of assets exceeds associated debt.

Consistent with findings from previous studies (Nam & Huang, 2008; Yeung & Conley, 2008), results from this study indicate that unsecured debt is associated with decreased chances of children's college graduation. The presence of unsecured debt may suggest a lower level of financial functioning of a family, and may also limit a household's ability to obtain additional loans in the future (Nam & Huang, 2008).

It is worth noting that, in initial models, family income is positively related to children's educational attainment. But after assets are included in the regression models, the association is no longer statistically significant. In other words, the statistical result from this study is that income does not matter, while assets do matter, for college completion. This finding is similar to our previous research on assets and educational achievement using a different longitudinal data set (Zhan & Sherraden, 2003).

Results further indicate that more financial assets and nonfinancial assets are linked to higher education expectations of both parents and children. Secured debt is also related to higher children's educational expectations. After financial assets are controlled, however, nonfinancial assets and secured debt are no longer related to expectations. Thus, the associations between nonfinancial assets or secured debt and educational expectations work statistically through financial assets, perhaps because financial assets are more liquid and available for educational financing.

A major caveat in this research is that this is not experimental research, and alternative explanations cannot be ruled out. The Center for Social Development and research partners have an experiment underway, testing the impacts of a College Savings Plan, with random assignment of newborns to treatment and control groups, but this experiment is in the early stages (Kim & Nam, 2009; Sherraden & Clancy, 2008).

Conclusions and Implications

The key research finding in this study is that, controlling for many other variables, financial assets, including saving, are a consistent and stable predictor of later college graduation. This signals a need for much more research on this topic than has occurred to date.

More generally, this study's findings suggest that research on economic resources and later well-being are likely to be underspecified unless assets are included in theoretical statements and analyses.

Turning to policy implications, two main conclusions can be drawn from the findings. First, it may be helpful to reduce unsecured debt among low- and moderate-income families. Policy strategies might include: (1) tightening standards on credit card availability, and ensuring greater transparency in credit card fees; (2) strengthening regulation of predatory financial institutions, such as payday loans and check cashing outlets; and (3) making banks and other mainstream financial institutions more accessible to low-income families.

Second, it may be important for public policy to facilitate family savings and other asset accumulation for children's college education. Federal and state policies are in place that allow tax-free savings for college expenses in the form of 529 College Savings Plans; however, low-income families benefit little or not at all from these plans because they pay lower taxes. Thus, 529 plans with more inclusive and progressive features may enable more low-income families to save for children's college education. Innovations in this respect are already underway, including matching programs for low- and moderate-income 529 savers, and creative partnerships between state 529 plans and other educational initiatives (Clancy, Mason, & Lo, 2008; Clancy & Miller, 2009).

Given that federal policy is already heavily in the business of subsidizing savings (e.g., in IRAs, 401(k)s, College Savings Plans, Health Savings Plans, and other vehicles), greater inclusion of low- and moderate-income families in saving for college would be a fair and sensible public investment.

Endnotes

1. Secured debt refers to debt that is associated with the purchase of an asset, such as a loan on a home or vehicle, while unsecured debt refers to consumer debt, such as a credit card balance.

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