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Assets and Liabilities, Race/Ethnicity, and Children's College Education

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Using longitudinal data, this study looks at White, Black, and Hispanic families to examine relationships between household resources (especially assets and liabilities) and children's later college education—both attendance and graduation.This study extends research conducted by Zhan and Sherraden (2009) with in-depth analysis of college attendance and completion within racial/ethnic groups.

Research Questions

We ask two research questions. First, are household assets (financial and nonfinancial assets) and liabilities (secured and unsecured debt) associated with disparities in college attendance and college graduation among White, Black, and Hispanic children? Second, do assets and liabilities have differential links to college education for children from White, Black, and Hispanic families?

Research Methods

Data are drawn from the National Longitudinal Survey of Youth (NLSY79) main file and the NLSY79 child/ young adult data sets. The study sample (N=1,162) includes children who were 11 to 17 years old in 1994. Data related to household assets, liabilities, and other parent and child characteristics are from mother/ child data of survey year 1994, and information on children's college attendance and college graduation is from young adult data of survey year 2006, when these children were 23 to 29 years old. In this way, temporal order between assets and liabilities and later college education is established.

Two sets of analyses are conducted. First, in order to examine how much racial disparity in college education is related to differences in assets and liabilities, a series of regressions are estimated with different predictors in the models. The first model includes only race/ethnicity. Control variables, including family income, are then added. Finally, assets and liabilities are entered into the model.

Second, in order to investigate whether associations between assets and liabilities and children's college education differ among White, Black, and Hispanic children, separate regression analyses are conducted with the sub-samples of each of these three groups.

For all these analyses, assets and liabilities are first analyzed separately to estimate their relative links to children's education. Then they are both included in the models to assess how they together affect college education. The two outcome variables, college attendance and college graduation, are analyzed in separate models.

This brief is based on the full research report: Zhan, M., & Sherraden, M. (2010). *Assets and liabilities, race/ethnicity, and children's college education* (CSD Working Paper 10-08). St. Louis, MO: Washington University, Center for Social Development

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Findings

Findings indicate that differences in economic resources are associated with a substantial portion of the Black-White gap in college attendance and graduation. Separate analyses of subsamples for each race/ethnicity group reveal different associations of household economic resources with children's college attendance and graduation.

Controlling for other factors, household income has stronger relationships with White children's education. Household income is not related to Black children's college education, and it is not related to the college education of Hispanic children after assets are considered.

After income and other parental and child characteristics are controlled, Black-White gaps in college education are reduced but still statistically significant. However, after assets are added to the model, the educational achievements of Black children are not statistically different from those of White children.

Links of household assets to White-Hispanic gaps in college education are weaker. Household assets are not related to the White-Hispanic difference in college attendance. After assets are included in the model, the White-Hispanic gap in college graduation is reduced by about 14% but is still statistically significant.

Overall, the links of financial assets to education follow a pattern similar to that of income, i.e., they are much stronger for White children.

In contrast and interestingly, nonfinancial assets matter more for Black children. This finding could be due primarily to the fact that smaller portions of minority families own financial assets in the study sample (and in the population), and the values of their financial assets are very low. Under these circumstances, nonfinancial assets may play a more important role for minority children, largely because they represent a larger share of the assets among these families (Oliver & Shapiro, 2008).

Unsecured debt is negatively related to college graduation for Hispanic and Black children, but not for White children. Further analyses indicate that the unsecured-debt-to-financial-assets ratio is much higher among Black families (36%) and Hispanic families (22%), compared to White families (14%). In other words, unsecured debt looms larger for minority families, and likely interferes with positive financial functioning, including paying for college.

Summary and Implications

Overall, our findings point to the importance of building assets and reducing unsecured debt among minority families.

With the soaring cost of college education, it has become more daunting for families with few assets to pay for their children's education. The current study indicates that racial/ethnic gaps in asset holding are associated with later college attendance and graduation. Thus, creating incentives for minority families to accumulate assets for college may be a sound policy strategy.

Research results also indicate that unsecured debt decreases the probability of children attending or graduating from college, particularly for Black and Hispanic children. The rising amounts of these debts (such as credit card debt and student loans), coupled with a higher debt-to-asset ratio among low- and middle-income minority families, poses challenges for building assets and financing higher education. Minority families are particularly vulnerable to fringe financial services, such as nontransparent credit card practices and high-interest payday lenders (Center for Responsible Lending, 2008; Oliver & Shapiro, 2008). Strengthening financial regulation and ensuring that low-income minority families have access to transparent and fairly-priced credit may be an important policy direction.

References

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