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The Burden of Student Debt: Findings from a Survey of Low- and Moderate-Income Households

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With increasing tuition prices and reduced state higher education funding,[1] the costs of postsecondary education are shifting to students and their families.[2] As a result, most students (70%) depend on loans to help pay for college; on average, borrowers graduate with nearly $30,000 in debt.[3] The share of households that have student debt has grown gradually from 9% in 1989 to 19% in 2010. The share of households with student debt of $25,000 or higher increased by 24 percentage points over this same period.[4] At over $1.2 trillion, student debt is now the largest source of consumer debt in the United States aside from mortgages.[5]

Earning a college degree has a positive impact on one's social and economic outcomes.[6] For example, lifetime earnings are greater for college graduates than for counterparts with only a high-school-level education.[7] Yet, student debt-to-income ratios,[8] loan default rates, and delinquency rates are rising.[9] These trends indicate that student debt is increasingly difficult for borrowers to manage, and this is particularly so for low-income borrowers, who have more difficulty repaying their student loans than do higher income borrowers.[10]

Prior research has found that having student debt is associated with various types of material hardship and financial difficulties such as paying bills late and skipping meals. Greater levels of student debt are also positively associated with greater credit card debt and a greater likelihood of declaring bankruptcy.[11] Moreover, student debt places a drag on saving and investing. Compared to households without student debt, borrowing households have less retirement savings, lower odds of homeownership, and less net worth.[12]

Much remains unknown about student debt's effects on the material and financial well-being of low- and moderate-income (LMI) households. In particular, little is known about such debt's role in households with members who start but do not graduate from college.

The purpose of this brief is to examine student debt's relationship with material hardship and financial difficulties among a sample of LMI tax filers in the Refund to Savings (R2S) Initiative. We make an important contribution to student debt research by describing differences in the characteristics, circumstances, and experiences of LMI tax filers with and without student debt. Findings are discussed in relation to policy initiatives focused on making college more affordable and easing the burden of student debt.

Background

The R2S Initiative is an ongoing partnership of Washington University in St. Louis, Duke University, and Intuit, Inc. The initiative assesses the outcomes of messages encouraging LMI tax filers to save all or a part of their expected federal tax refunds. Participants in this study completed their tax returns using TurboTax Freedom Edition, an online tax-preparation software offered for free to filers who had adjusted gross income of less than $30,000, qualified for the Earned Income Tax Credit, and/or were active duty members of the military with an adjusted gross income of less than $58,000. Data used for this brief include administrative records from the 2014 tax season and from the Household Financial Survey, which participants were invited to complete upon filing their tax returns. The analytic sample used for this brief consisted of R2S participants who were 18 years of age or older and indicated whether they had student debt (N = 8,772). The average age of participants was 38 years, and the average income was $16,288. Most participants were female (59%), White (78%), and not a student at the time of participation (73%). Also, most participants had a college degree or higher (51%).

Student Debt Prevalence and Amount

Over half (51%) of R2S participants said that they have student debt, the mean and median household amounts of which were $35,482 and $21,000, respectively. The median for the number of years since graduation indicated that half of R2S participants are still in the early years of student loan repayment.

Table 1. Characteristics of Student Loan Borrowers (*n* = 4,422)

Characteristic	Mean	Median
Current owed ($)	35,482	21,000
Monthly payment ($)[a]	227	160
% of income	25	11
Years since graduation[b]	6.15	3
Age	33.14	30

Data are from the baseline Household Financial Survey.

[a]*n* = 2,383; includes participants with student debt who were making monthly payments.

[b]*n* = 2,535; includes participants with student debt who graduated from college.

To calculate debt burden, we divided monthly student-debt payments by monthly income among borrowers with one adult in the household (*n* = 1,099).[13] These borrowers reported debt payments that were equal, on average, to a quarter of their income. That level of payment far exceeds federal income-driven loan repayment standards.

Characteristics of Borrowers and Nonborrowers

Demographics

Women were more likely than men and to have student debt, and Black participants were more likely than White, Asian, Latino and other race participants to have student debt. For example, two thirds of Black participants have debt compared with just over half of all participants (see Figure 1).

On average, Black borrowers had $2,583 more student debt than other borrowers did. Men had slightly more debt ($682 more) than women did.

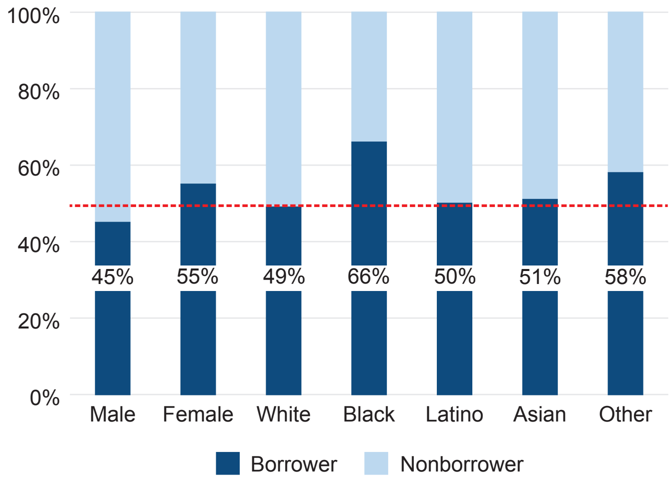

Figure 1. Student debt by gender and race/ethnicity (*n* = 8,438). Data are from the baseline Household Financial Survey. Dotted red line represents the percentage of all participants who had student debt (51%). Sample is smaller than full analytic sample due to 4% missing values on gender and race/ethnicity.

Among borrowers who were not enrolled in school at the time of participation, 59% reported that they have graduated from college. This rate was lower among Black participants (49%) compared to White (61%), Asian (64%), and Latino (66%) counterparts.

The median length of time elapsed since participants graduated from college was 3 years among borrowers and 14 years among nonborrowers. As we have noted above, this finding suggests that most participants with student debt are in the early years of repayment.

Financial Characteristics

Borrowers and nonborrowers had very similar income, yet the value of borrowers' liquid financial assets was lower, and they had greater unsecured debt (e.g., from credit cards, payday loans, and unpaid medical bills; see Figure 2). Even if the amount of student debt is excluded, borrowers' debt exceeded their assets, but the opposite was true for nonborrowers.

Financial Difficulty

Participants with student debt were more likely than those without it to report financial difficulties. As Figure 3 shows, those difficulties include having a credit card declined, one

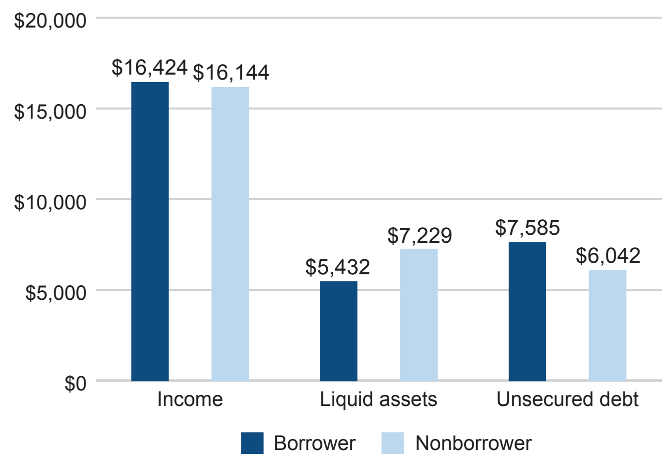

Figure 2. Financial circumstances of borrowers and nonborrowers (*N* = 8,772). Data are from the baseline Household Financial Survey. Liquid assets include the value of cash, checking and savings accounts, savings bonds, prepaid cards, and 2013 federal tax refund.

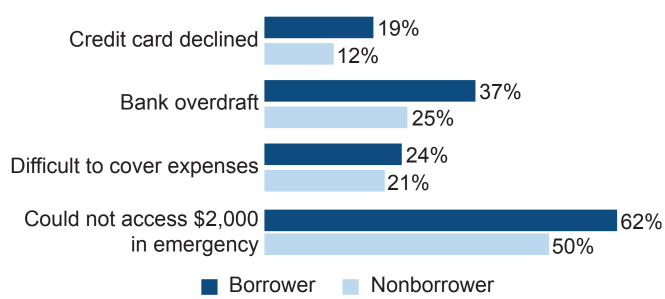

Figure 3. Financial difficulties of borrowers and nonborrowers (*N* = 8,772). Data are from the baseline Household Financial Survey.

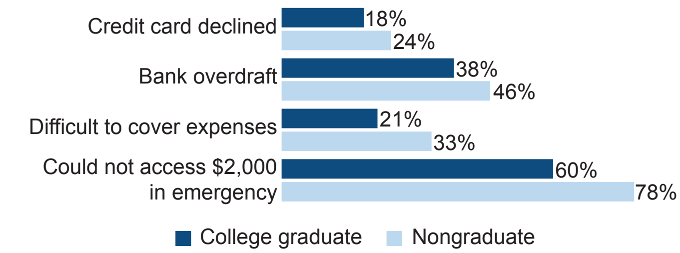

Figure 4. Financial difficulties of borrowers who were not enrolled in school, with and without college degrees (*n* = 1,922). Data are from the baseline Household Financial Survey.

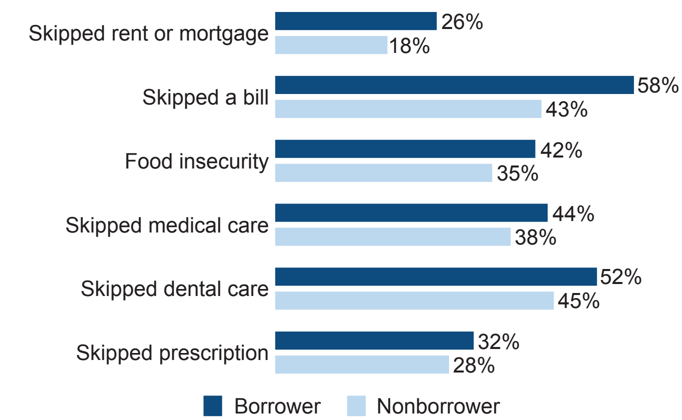

Figure 5. Material hardships of borrowers and nonborrowers (*n* = 8,740 to 8,757). Data are from the baseline Household Financial Survey. From the Household Financial Survey, the number of respondents varies from 8,740 to 8,757 because of participant nonresponse.

or more bank account overdrafts in the last 12 months, and difficulty covering usual expenses. Also, participant with student debt were more likely to report being unable to come up with $2,000 in an emergency (see Figure 3).

Concerning debt amounts, there were only small differences between the financial difficulties of borrowers with debt above the median and those of borrowers with debt below it.[14] For example, 20% of borrowers with high debt reported that they had a credit card declined, but only 19% of borrowers with low debt reported this. However, the likelihood of experiencing one of the examined financial difficulties was greater among borrowers who did not complete college than among borrowers who graduated (see Figure 4).

Material Hardship

Borrowers were also more likely than nonborrowers to experience each of the six hardships examined in these analyses. For example, 42% of borrowers said that there was a time in the past year when they could not afford the type or amount of food they wanted; 35% of nonborrowers reported the same (see Figure 5). Overall, 79% of borrowers and 68% of nonborrowers experienced at least one of the examined hardships in the 12 months before completing the survey.

Compared to borrowers with low debt (79%), borrowers with high debt were only slightly more likely to experience any of the examined hardships (80%). However, material hardships were more frequent among borrowers who did not complete college than among borrowers who graduated (see Figure 6).

Experiences With Student Loans

Difficulty With Repayment

Among participants with student debt, nearly half (49%) agreed or strongly agreed that it is difficult to make payments on federal student loans. Certain groups had greater difficulty than others (see Figure 7). Women were somewhat more likely than men to say that repayment was difficult.[15] Black borrowers were more likely than borrowers in other racial/ethnic categories to report repayment difficulty. Borrowers with dependents (60%)

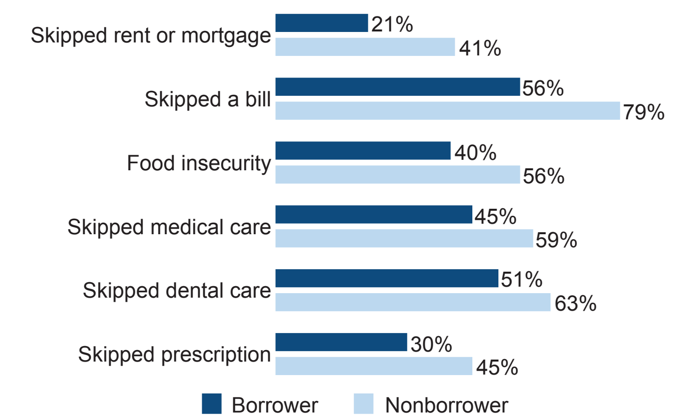

Figure 6. Material hardships of borrowers who were not enrolled in school, with and without college degrees (*n* = 1,922). Data are from the baseline Household Financial Survey.

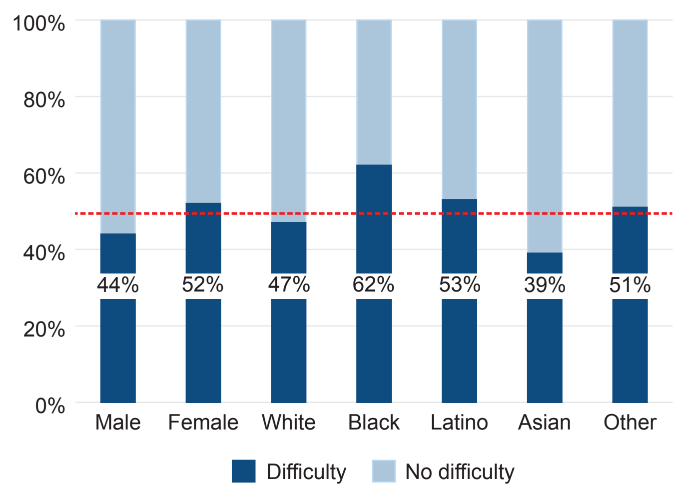

Figure 7. Proportions of borrowers with repayment difficulty (*n* = 3,255). Data are from the baseline Household Financial Survey. Dotted red line represents the percentage of all participants making monthly student loan payments who said they had difficulty making payments (49%).

were more likely than those without dependents (44%) to report it.

Difficulty with repayment also differed by loan circumstances. Borrowers who did not finish college (68%) were more likely than graduates (51%) to indicate repayment difficulty. Those with high debt amounts (54%) were more likely than borrowers with low debt (43%) to say that repayment was difficult.

Awareness of Repayment Plans

Most borrowers (77%) were aware of federal Department of Education loan repayment plans. Somewhat more women (79%) were aware of these plans than were men (74%). More White (78%) and Asian (81%) borrowers were aware than were Black (73%) and Latino (72%) borrowers. The percentage of borrowers with high student debt who were aware of the plans (81%) was greater than that of borrowers with low student debt (72%).

The survey asked borrowers whether they attempted to reduce their monthly federal loan payments by applying for a federal repayment plan within the previous 6 months. Among borrowers who applied for such a plan, most (66%) said that they were satisfied or very satisfied with the information on the Federal Student Aid office's studentloans.gov website.[16] There are no large differences in website satisfaction by gender, race, or loan characteristics.

Applications to Reduce Student Debt

The results provide another indication that many borrowers are struggling with repayment: 45% applied in the previous year to reduce their monthly payments on federal student loans. Borrowers with high debt (55%) were more likely than borrowers with low debt (31%) to have applied for payment reductions. Black borrowers (54%) were more likely than White (43%), Asian (47%), and Latino (44%) borrowers to have applied. Most (55%) applicants said that it was easy or very easy to apply.

Interest in Using Refunds to Pay Down Student Debt

When asked whether they would be interested in using all or part of their federal tax refund to pay down student debt, 42% of participants indicated that they would. There were only small differences by gender, race, and loan characteristics.

Conclusion

In this brief, we find that it was common for R2S participants to carry student debt. Compared with counterparts who had no student debt, participants with such debt had worse financial circumstances, were more likely to experience material hardship, and reported financial difficulty in greater percentages. At particularly higher risk for material hardship and financial difficulty were borrowers who did not complete college. Furthermore, Black participants fared worse than others in many respects. They were more likely to have student debt and to say that they had difficulty repaying loans, had greater amounts of debt, and were less likely than others to graduate from college and to be aware of options for reducing federal loan payments.

At least one of the findings is encouraging: Awareness of options to lower monthly federal loan payments was high. Nearly half of R2S participants took action to lower payments in the year prior to the survey, and many participants said that they are interested in using tax refunds to pay down student loan balances.

In light of our findings, certain policy and practice responses are in order. First, the difficulties associated with having student debt suggest the need for policy efforts to reduce the proportion of college education that LMI households finance by loans.[17] This can be accomplished by limiting or reversing dramatic tuition increases, increasing grant-based aid (e.g., Pell Grants) and work study opportunities, and expanding opportunities and incentives for families to save for college. Child Development Accounts and state 529 plans are two examples of such opportunities.

Second, students from LMI backgrounds who borrow to finance college need additional support to remain in school and graduate. Students who leave school with student debt and no degree bear a tremendous disadvantage.

Third, policies must do more to address racial disparities in the U.S. educational system. These disparities are not expressed only in the disproportionately high dropout risk among Black high school students but also in the high percentage of Black students who take out loans to pay for college.

Acknowledgments

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Lastly, we thank the thousands of taxpayers who consented to participate in the research surveys and shared their personal financial information.

Disclaimer

Statistical compilations disclosed in this document relate directly to the bona fide research of and public policy discussions concerning the use of the IRS "split refund" capability and promotion of increased savings in connection with the tax compliance process. All compilations are anonymous and do not disclose cells containing data from fewer than ten tax returns. IRS Reg. 301.7216

End Notes

1. Best and Keppo (2012); College Board (2016).
2. Elliott and Friedline (2013).
3. Institute for College Access & Success (2015). We use the term *borrower* to refer to current or former students who hold postsecondary education debt.
4. Bricker and Thompson (2016).
5. Chopra (2013).
6. Carneiro, Heckman, and Vytlacil (2010).
7. Greenstone and Looney (2012); Hershbein, Harris, and Kearney (2014).
8. Bricker and Thompson (2016).
9. Brown, Haughwout, Lee, Scally, and Van der Klaauw (2015); Hillman (2014); Lee, Van der Klaauw, Haughwout, Brown, & Scally (2014).
10. Baum and O'Malley (2003).
11. Bricker and Thompson (2016); Gicheva and Thompson (2015); Soria, Weiner, and Lu (2014).
12. Brown and Caldwell (2013); Brown et al. (2015); Elliott, Grinstein-Weiss, and Nam (2013); Fry (2014); Gicheva and Thompson (2015).
13. The subsample for debt burden analyses is limited to participants who filed as single or head of household and who had only one adult in the household. We chose this subsample in order to create a match between the gross income reported on tax returns and the self-reported student debt for one adult. A limitation of this approach is that our findings on debt burden are not generalizable to households with more than one adult.
14. For ease of exposition, participants with student debt above the $21,000 median are said to have *high debt*, and participants with student debt below that level are said to have *low debt*.
15. That is, women were more likely than men to agree or strongly agree with the statement that it was difficult.
16. http://studentloans.gov.
17. Elliott and Friedline (2013).

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