Student Loan Debt and Financial Insecurity among Young Adults

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Background

- Many Americans experience financial insecurity. Financial insecurity in young adulthood has implications for later life development.
  - Couples with more debt and less wealth are less likely to marry (Addo 2014; Schneider 2011).
- Young adulthood (age 25-45) is an important stage in the life course when individuals form families and earnings increase (Settersten, et al, 2015).

Student debt and financial insecurity

- Tuitions have increased over time, faster than inflation.
- The increase in student debt is large: proportion carrying student loan debt increased by 25% from the early 2000s (Houle, 2014).
- As family assets and incomes were affected by 2008 Recession, students relied increasingly on student loans. (Brookings, 2013)
- Other costs also play a role: housing, books, transportation.
- Only those who cannot afford take out loans. Underrepresented groups - minorities and low-income students - more likely to hold student debt.

Motivation

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- Little is known about how the increase in student debt levels relates to financial insecurity.
- Systematic analysis of the relationship between student loan debt levels and financial insecurity over time and across countries (a) identifies new patterns that have not been identified (b) sheds light on policy options moving forward.

Research questions

1. How have student loan debt and financial insecurity changed over time?

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2. To what extent does holding student loan debt affect the risk of financial insecurity?
3. How would financial insecurity change with counterfactual levels of student debt?

Methods

- Data from the Luxembourg Wealth Study: a cross-national database that harmonizes representative household surveys of wealth across 15 countries.
- US data were from the Survey of Consumer Finances (1995 to 2016); Canadian data were from the Survey of Financial Security (2016).
- Unit of analysis is household; restricted to household head age 25-45.

Methods measurement and analysis

- Dependent variable: Financial insecurity was defined as total debts exceeding total assets, i.e., negative net worth.
- Student loan debt: self-reported balances for education loans.
- Descriptives, logistic regression, and counterfactuals.
- Counterfactual scenarios: What would financial security be if...?
    1. There was no student debt
    2. Student debt remained constant at 1995 levels
    3. Student debt held at Canada levels (2016)
- Analysis was largely descriptive. Household probability weights used.

Results: Levels of Student Debt

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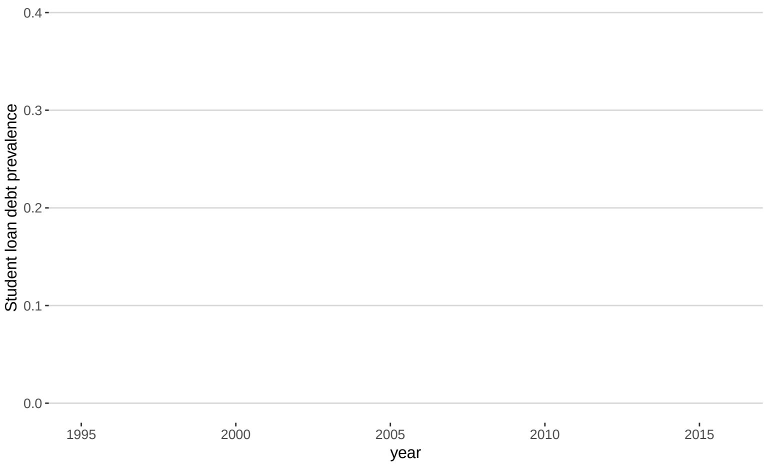
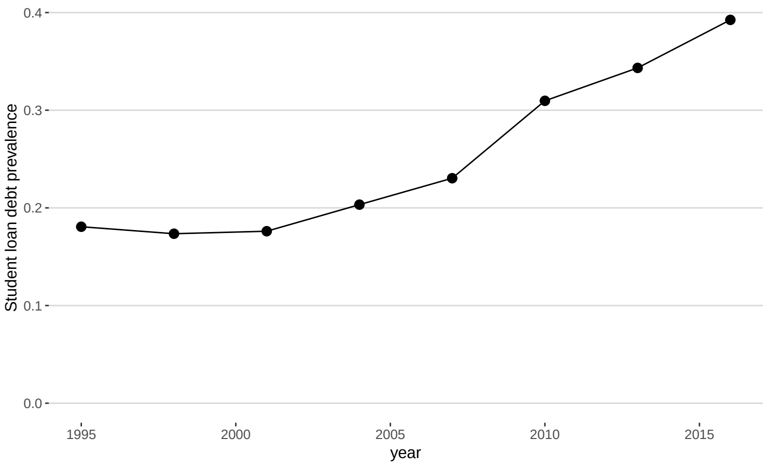
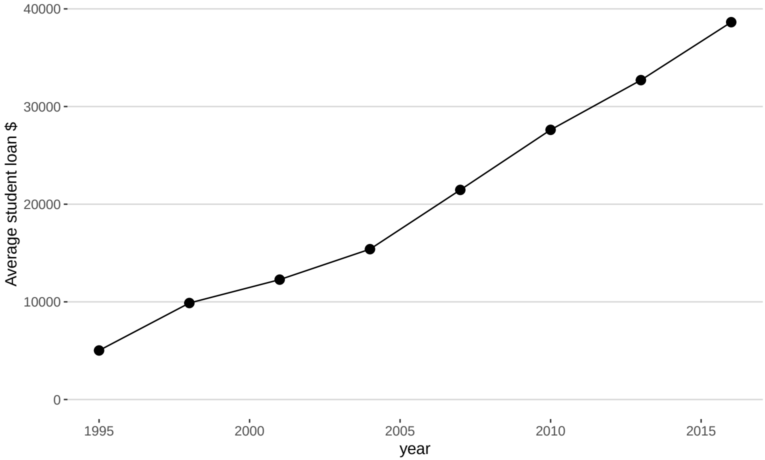


How has prevalence of owning student debt changed over time?

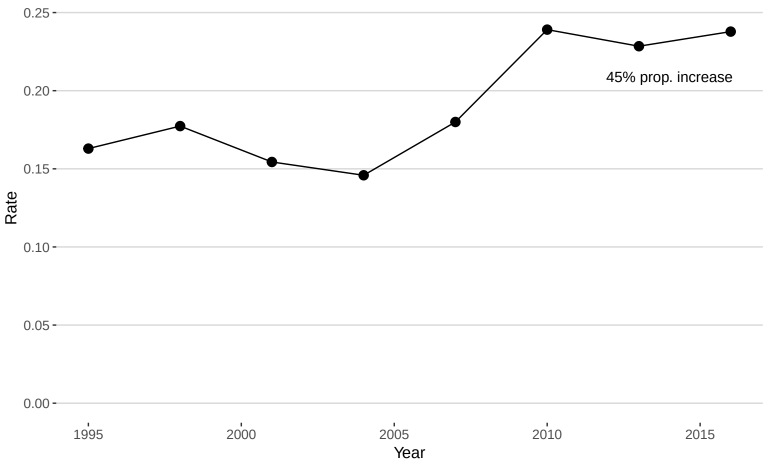


How have average student debt levels changed over time?



Conditional among holding student debt. In 2011 inflation adjusted $

What is the rate of financial insecurity and how has it changed?



Methods : details on the regressions

- Model:
  logistic regression predicting financial insecurity (1/0)
  1. Base model: fi = sld + year
  2. Demographics: fi = sld + year + demographics
  3. Income/imployment: fi = sld + year + demographics + income/employment
- Interactions between sld and year
- Year fixed effects control of unobserved contextual variation

Relationship between student debt and financial insecurity over time?

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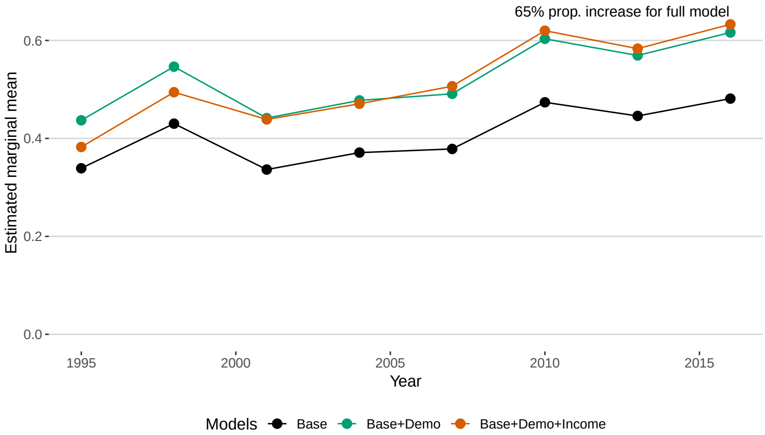

Demographics include age, family structure, education. Income logged and dummy for employed.

Methods : details on the decomposition

- In counterfactual terms: What would the rate of financial insecurity have been in [scenario] assuming $x_1 \ldots x_t$ components changed?

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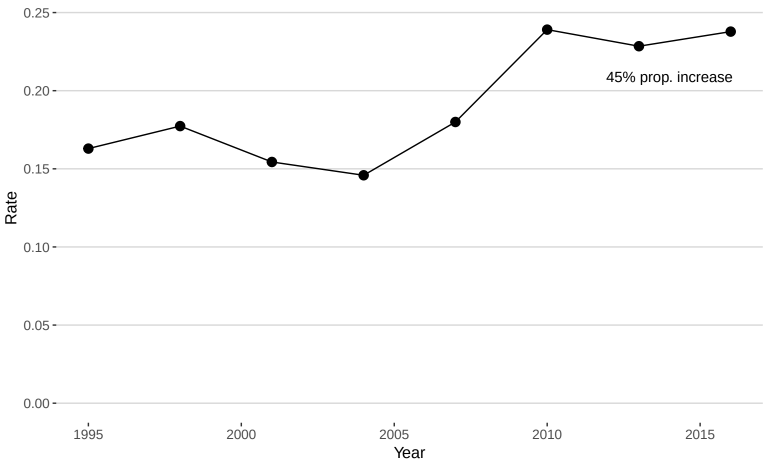
- Net worth $= (han + haf) - (tdsl + hlne)$
- Financial insecurity = nw ¡= 0
- Replace one component at a time and calculate hypothetical rate of financial insecurity
- Average across all possible paths using Shapley method (Azevedo, J. P., Sanfelice, V., & Nguyen, V., 2012)

CF1: What would the rate of financial insecurity be without student debt?



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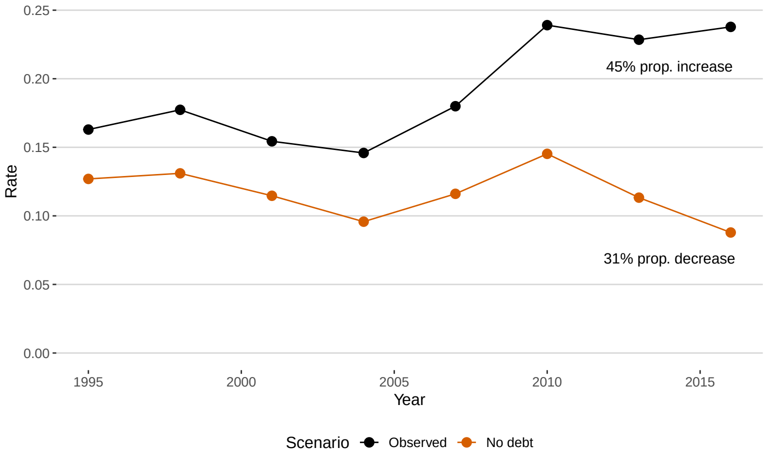
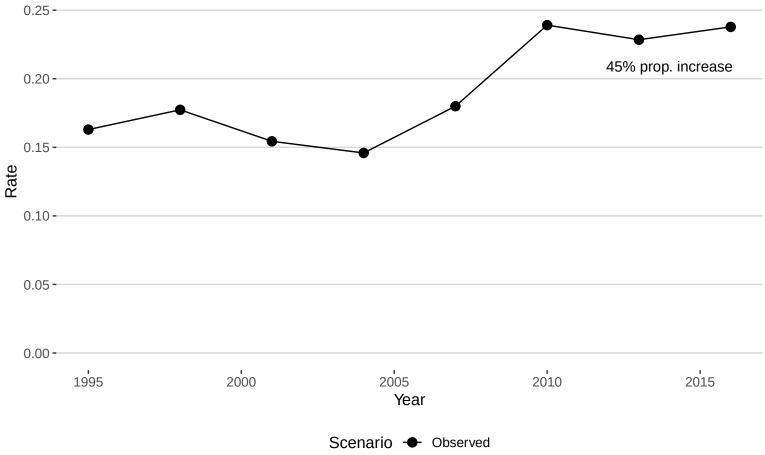


CF2: What would the rate of financial insecurity be with 1995 levels of student debt?



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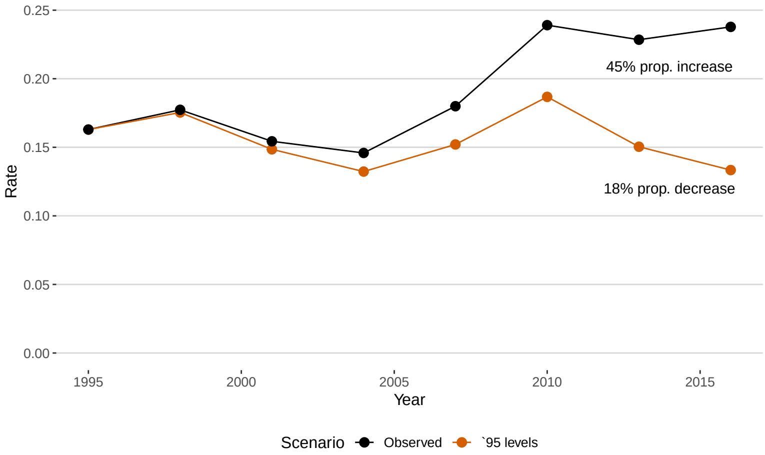

Why study Canada?

- Laws and traditions have similar Anglo origins
- Economy and safety net structure more similar than European countries (liberal welfare state)
- Canada provides a natural experiment because of different policies (Tan, 2015; Card and Freeman, 1993)

Student loan debt in the US and Canada

Table: LWS 2016

Indicator	US	Canada
p25	9000	5500
p50	20000	11500
p75	45000	23000
Mean	36212	18399
Fin insecurity	24%	12%

PPP adjusted for 2011 USD. Conditional on holding student loan debt.

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- US financial insecurity rate: 24%
- Canada financial insecurity rate: 12%
- US with Canada levels of student debt: 17.5% (27% reduction)

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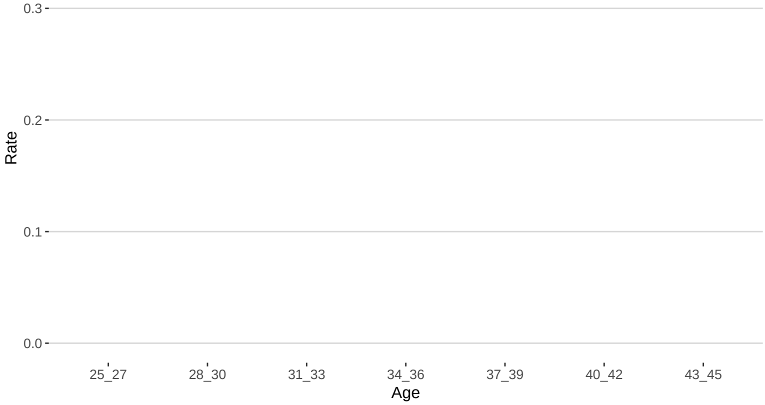

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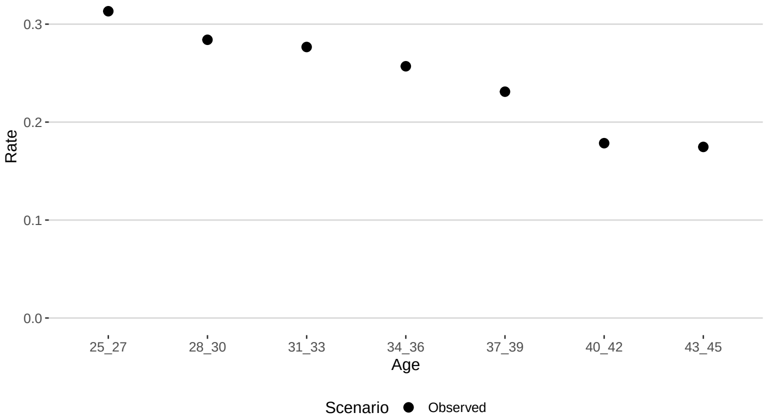

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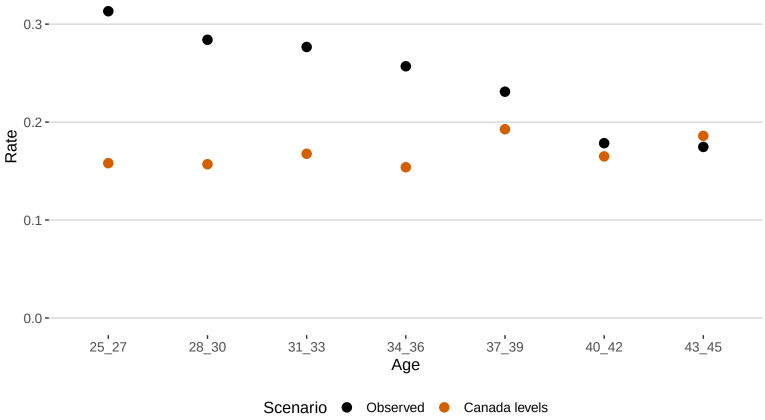

Results

Summary

1. Student loan debt explains about 3x more today than in 1995 (22%)
2. Holding student loan debt levels at 1995 levels would reduce financial insecurity by 34%.
3. Imposing 2016 Canadian student debt levels would reduce overall financial insecurity by about 7 percentage points.
4. Most of this effect is concentrated at early adulthood, age 25-35 where reduction is 13 percentage points or 43% of the rate.

Limitations

- Descriptive association, not causal
- Lacking understanding of within group (young adulthood) inequalities
- Choice of negative net worth crude measure of financial insecurity
- Need to understand levels of student debt

Contextual considerations, future research, takeaways

- Main cause of bankruptcy is uninsured health costs/debt (Doty et al, 2005; Himmelsteinet al, 2009)
- Some consider cost of education, not student debt the problem (see Goldrick Rab)
- In Canada, tuition lower, loans lower

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- Build on this descriptive work with more formal regression-based decomposition over time and across countries

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- Future work to examine Canada over time, within group variation
- Build on this descriptive work with more formal regression-based decomposition over time and across countries
- Overall, suggestive evidence that the rapid increase in student loan debt has increased the prevalence of financial insecurity in early adulthood

END

THANK YOU

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