

Dēmos



Wisconsin's Great Cost Shift

HOW HIGHER EDUCATION CUTS UNDERMINE THE
STATE'S FUTURE MIDDLE CLASS

In today's economy, a college education is essential for getting a good job and entering the middle class. Yet, despite this reality, college costs are rising beyond the reach of many Wisconsinites, and student loan debt has become a clear and present danger to both the Wisconsin and American economies.

Nationwide, student loan debt has exploded from \$200 billion in 2000 to \$1.3 trillion today.¹ Outstanding student loan debt is the largest component of consumer debt in the country, exceeding both auto loans and credit card debt, and is the second-largest source of household debt, trailing only mortgage debt. Student loan debt also impacts every generation in America. According to the Federal Reserve, borrowers aged 40 and older owed 34 percent of outstanding student loan debt as of 2012.²

In Wisconsin, state policy decisions have played a significant role in this rise by shifting costs onto students and families through declining state support. Wisconsin's investment in higher education has decreased considerably over the past two decades, and its financial aid programs, though still some of the country's most expansive, fail to reach many students with financial need. As a result, students and their families now pay—or borrow—much more than they can afford to get a higher education, a trend which will have grave consequences for Wisconsin's future economy.

The Impact of Student Debt on the Finances of Wisconsinites

According to One Wisconsin Institute's analysis³ of a detailed financial survey of nearly 2,700 Wisconsin residents across income and age levels, student debt is taking a grave toll on the finances of borrowers:

- **Large Monthly Payments:** Individuals with bachelor's degrees reported making average monthly student loan payments of \$350 and those with graduate or professional degrees made an average payment of \$448.
- **Auto Purchases:** Individuals repaying student loans are more than twice as likely to purchase a used automobile. As a result, aggregate new vehicle spending in Wisconsin may be reduced by up to \$201.8 million annually.

- **Home Ownership:** One Wisconsin found strong correlation between student loan debt and renting among student debtors. Demos research on student debtors corroborates this, finding that, among young households with college degrees, homeownership rates were 6 percent lower among households with student debt; and though indebted households purchased less expensive homes, they had, on average, about \$18,000 less in home equity than households without student debt.⁴

The Institute's research also showed that the average Wisconsin borrower pays \$388 a month toward their student loan debt. However, the burden of student debt isn't limited to a few households: more than 812,000 Wisconsinites have student debt.⁵ Collectively, Wisconsin's student debtors owed \$18.8 billion, as of 2013,⁶ and are making nearly \$4 billion a year in student loan payments — an incredible drag on the spending power of these hardworking individuals who make up nearly one in five adults in Wisconsin.

Clearly, student debt is becoming a full-blown crisis for young households, one which impacts both individual borrowers and the entire economy, as borrowers' consumer choices are limited by ballooning student debt. Demos attempted to quantify this larger economic impact of student debt in its 2013 report, "At What Cost? How Student Debt Reduces Lifetime Wealth."⁷ It found that, for a young dual-headed household with \$53,000 in student debt, the impact of their debt will lead to a lifetime wealth loss of nearly \$208,000, primarily due to lost savings and investment early in their working lives. Translating this to Wisconsin's student debtors, their \$18.8 billion in outstanding student debt will result in \$73.8 billion in lost wealth, an amount that will continue to rise until the student debt crisis is solved. To do so, we need to understand the causes of why Wisconsinites are borrowing so much for college. To find the causes, this brief examines the state of public higher education in Wisconsin and identifies the major culprit: the major cuts in state funding for higher education.

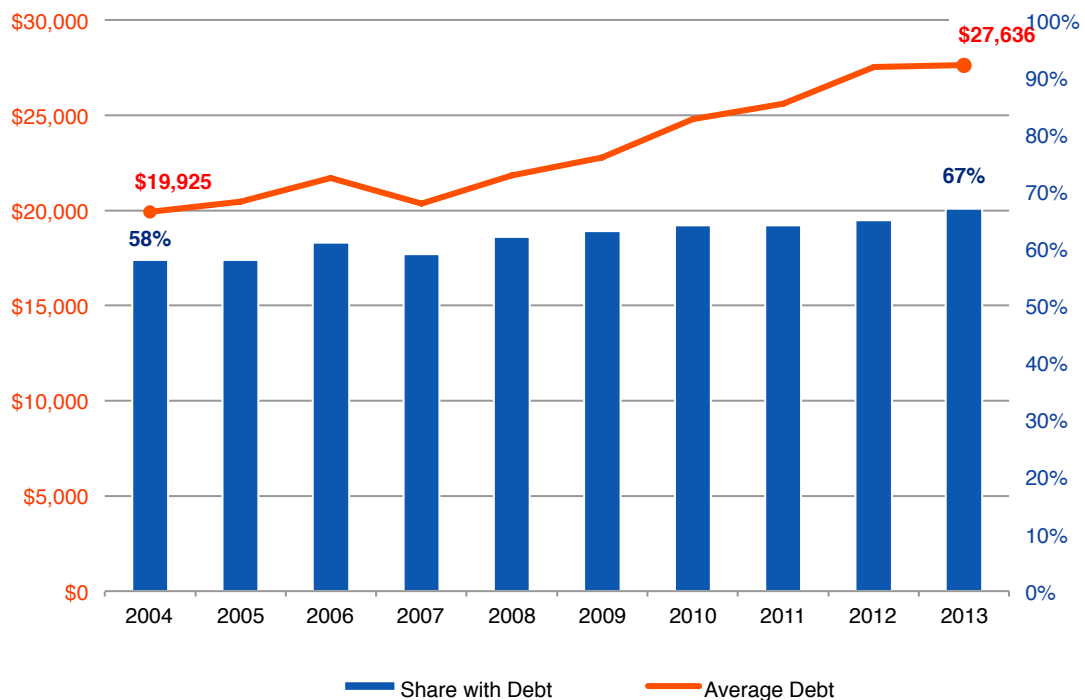
Shifting Costs to Students and Families

Tuition charges at UW schools have been rising far more rapidly than family incomes in Wisconsin, which means that tuition has taken an increasingly large bite out of family budgets. The rising unaffordability of a college education in the state, in turn, has caused students to borrow more to pay for school.

- In 2000, average tuition and fees alone at four-year UW schools cost 8 percent of a median household's income; by 2012 this share had doubled to 16 percent.
- Sixty-seven percent of students graduating from public four-year colleges in Wisconsin in 2013 left with some student debt, much higher than the 58 percent who left indebted in 2004.
- The average debt of indebted graduates of public four-year schools has risen precipitously. Indebted students graduated with an average of \$27,636 in debt in 2013, a 39-percent rise since 2004.⁸

Figure 1: Rising Debt Burdens For Wisconsin's Graduates

2014 Dollars



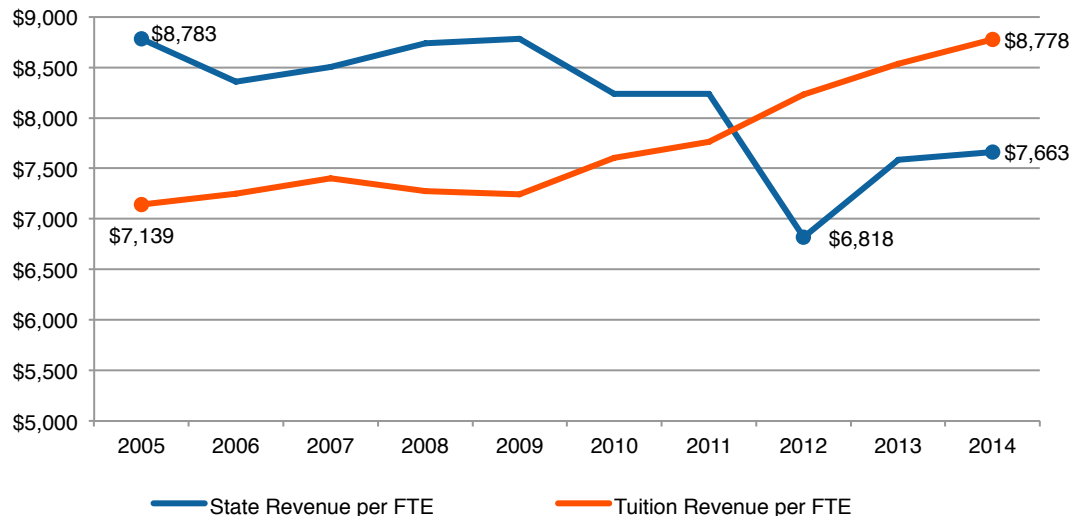
For University of Wisconsin System, Tuition Revenue Has Eclipsed State Support

State funding per full-time equivalent (FTE) student for the University of Wisconsin System has declined precipitously since its pre-Great Recession peak in 2009.⁹ In the 2011 budget, deep cuts hit every area of education in Wisconsin: from nearly \$800 million to K-12 education, \$70 million to Wisconsin technical college, and over \$300 million to the University of Wisconsin System.¹⁰ These cuts to the UW system, combined with a recession-driven rise in enrollments, drove state funding per FTE to a historic low in 2012. Tuition revenue per FTE, however, has continued to rise over the past decade, and in 2012 eclipsed state funding as the largest source of revenue for the UW system in 2012.

- In the past decade, total state funding for the UW system fell from its peak of \$1.31 billion in 2008 to \$1.17 billion in 2014, an 11 percent decline.¹¹
- As Figure 2 shows, funding per full-time equivalent (FTE) student has suffered a similar decline, falling 22 percent from 2009 to 2012, before recovering somewhat in the past two years.
- In contrast, tuition revenue per FTE has climbed steadily, rising 23 percent in the past decade, with much of that rise occurring in tandem with the post-2009 decline in state support.

Figure 2: Tuition Revenue Now Eclipses State Support

Per Full-Time Equivalent Student, 2014 Dollars



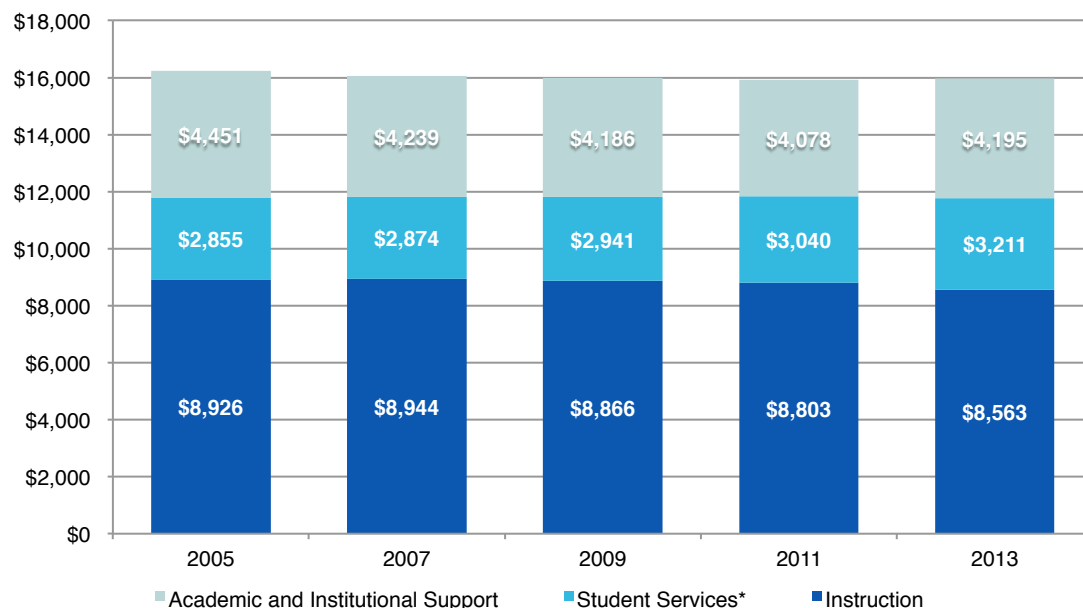
Major Expenditures Have Declined

Despite the changing composition of the revenue of the UW system, its total expenditures on instruction, student services, and academic/institutional support have declined slightly over the past decade. The composition of those expenditures, however, has changed: expenditures per student on instruction and academic/institutional support have declined while student services expenditures have risen, in part due to rising expenditures on athletic programs.

- Overall, combined expenditures in the three core categories have declined by 2 percent since 2005, falling by \$250 per student.
- Instructional expenditures per student have fallen by 4 percent since 2005, a decline of \$360 per student, and academic and institutional support expenditures are 5.7 percent lower over the same period, a fall of \$250.
- In contrast, student services expenditures rose by 12.5 percent over the past decade, an increase of \$350 per student. A portion of this increase is due to rising expenditures on athletics, which are counted as student services in the budget.

Figure 3: UW System's Major Expenditures Have Declined Slightly

Per Full-Time Equivalent Student, 2014 Dollars



*Includes Expenditures on Athletics

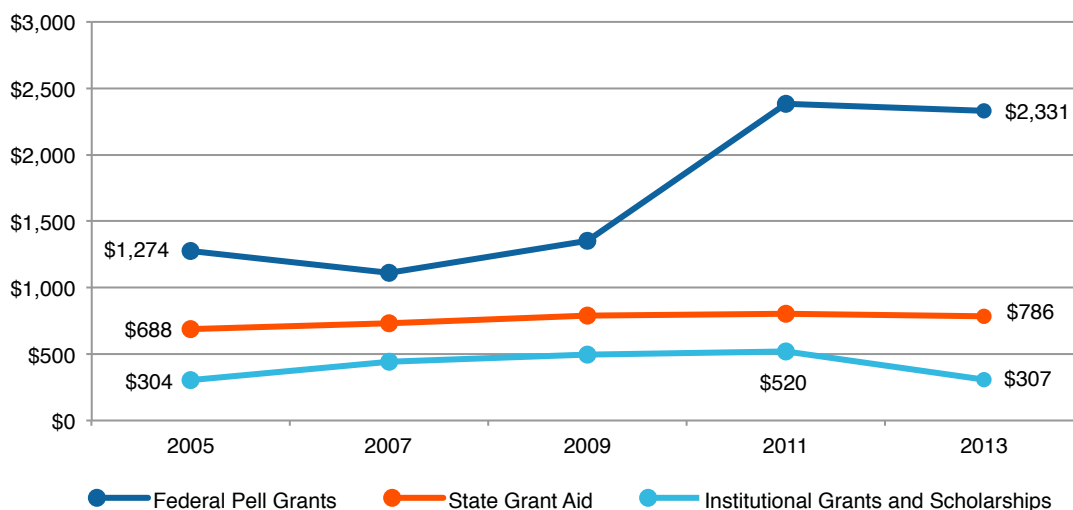
Institutional Aid Has Declined, State Aid Flat

Data on grant financial aid in the UW system makes it clear that students are indeed shouldering the cost of cuts to state funding. Institutional grant aid per student plummeted after the 2012 cuts to state funding, more than offsetting the slight increase in state grant aid per student. Federal Pell grants have risen substantially, but, as the rise in tuition revenue shows, not enough to offset increasing costs to students.

- Federal Pell grants to UW students increased substantially over the past decade, rising 83 percent in per student terms, or \$1,057 per FTE.
- State grant aid has remained essentially flat over the same period, rising just under \$100 per student.
- Institutional grant aid fell sharply in 2013, declining by more than \$200 per student, after rising steadily between 2005 and 2011. This decline was likely due to cuts to state funding for UW schools that took effect in 2012, since student aid is often the first casualty when universities are forced to cut spending.
- However, even the combined increases in federal and state grant aid were not enough to offset the sharp increases in tuition at UW schools. The average in-state tuition charged by 4-year UW schools in 2013 was \$8,339, which is nearly \$2,000 a year more than in-state average tuition in 2005, and double the amount charged just 15 years ago, in 1998.

Figure 4: Pell Grants Have Risen, Institutional Aid Has Declined

Per Full-Time Equivalent Student, 2014 Dollars



Increasing Enrollments, High Graduation Rates

Despite rising costs, enrollments at Wisconsin's four-year colleges and universities have risen steadily over the past two decades, in part because of the higher-than-average share of Wisconsin's young people enrolled in higher education. Additionally, some of the increased enrollment is due to the large rise in enrollment of out-of-state students, particularly undergraduates paying full out-of-state tuition, whose numbers have risen by nearly 8,200 students over the past decade, an increase of more than 82 percent.¹² And in spite of the increasing burden of tuition on students and their families, graduation rates at both Wisconsin's 4-year and 2-year schools are higher than national averages.

- Total FTE enrollment at the University of Wisconsin has increased nearly 9 percent in the past decade, from 142,209 FTE students in 2005 to 154,843 in 2013.
- Wisconsin has a high enrollment rate: 45.7 percent of Wisconsinites aged 18-24 were enrolled in higher education in 2013, more than 4 percent above the national average of 41.6 percent.¹³
- Graduation rates at Wisconsin's colleges and universities also outpace national averages. As of 2013, 59.3 percent of students at the state's public 4-year institutions graduated within 6 years, a rate 1.5 percentage points above the national average and the 17th highest in the nation.¹⁴
- Graduation rates at Wisconsin's two-year schools are even better, comparatively: the share of students at the state's two-year institutions who graduated within 3 years was 29.1 percent in 2013, nearly 10 percentage points above the national average and the 6th highest in the country.
- However, graduation rates have plummeted since 2000, when 42.5 percent of students at the state's public two-year schools graduated within 3 years. If this decline continues, Wisconsin's status as a high completion-state will likely be in jeopardy.

What Needs To Happen?

Even though Wisconsin's higher education graduation rates are well above the national average, they are still too low to meet the future demands of the state's labor market, which will increasingly require a postsecondary credential. Sixty-one percent of all jobs in the Badger State are projected to require some sort of postsecondary education by 2018,¹⁵ yet as of 2012, just 44 percent of young Wisconsinites (ages 25-34) had an associate's degree or higher.¹⁶ This share is not projected to improve much in the near future: by 2018, just 49 percent of all working-age Wisconsinites are projected to hold a two-year degree or higher, leaving the state with a significant educational gap in its labor market.¹⁷ Fortunately, Wisconsin can still close this projected gap by taking advantage of our state's resources to invest in the current and future generations of Wisconsinites aspiring to realize their dreams and join the middle class through postsecondary education.

With the recent cuts in higher education funding, Wisconsin is endangering the quality of its institutions of higher learning, threatening the state's economic competitiveness and the future of its young people. To reverse course, the state will need to commit to bold solutions that can strengthen and stabilize funding for Wisconsin's state universities and colleges, and provide greater financial support to deserving students.

About Demos

Demos is a public policy organization working for an America where we all have an equal say in our democracy and an equal chance in our economy

About One Wisconsin Institute

One Wisconsin Institute is a statewide research and education organization that utilizes research, communications, rapid response and online organizing to achieve its vision for a Wisconsin with equal economic opportunity for all.

ENDNOTES

- 1 “Consumer Credit – G.19” *Board of Governors of the Federal Reserve System*, <http://www.federalreserve.gov/releases/g19/current/#fn3a>.
- 2 “Student Loan Debt by Age Group,” *The Federal Reserve Bank of New York*, <http://www.newyorkfed.org/studentloandebt/index.html>.
- 3 One Wisconsin Institute, “The Economic Impact of Student Loan Debt in Wisconsin”, <https://drive.google.com/file/d/0B8LurBVUNQZfY2U3SUNrRFY2cFk/view>
- 4 Demos calculations of the 2013 Survey of Consumer Finances.
- 5 White House Domestic Policy House & Council of Economic Advisors, “Taking Action: Higher Education and Student Debt”, 6/10/14, https://www.whitehouse.gov/sites/default/files/docs/student_debt_report_final.pdf
- 6 “Student Loans: Overview and Issues,” The Federal Reserve Bank of Kansas City. <http://www.kansascityfed.org/publicat/reswkpap/pdf/rwp%2012-05.pdf?wf=rs082712>
- 7 “At What Cost: How Student Debt Reduces Lifetime Wealth.” Demos, 2013. <http://www.demos.org/what-cost-how-student-debt-reduces-lifetime-wealth>
- 8 The Institute for College Access and Success (TICAS), “College Insight” data, <http://college-insight.org/#explore/go&h=af0f0e9a70bf890cdf0d3350e3a0c4b>
- 9 All years in this brief have been shortened to refer to fiscal years; thus, 2009 represents the 2008/2009 fiscal year.
- 10 2011 Act 32; Associated Press, “Walker says budget cuts to UW will not be permanent”, 8/17/12, http://host.madison.com/news/local/education/university/walker-says-budget-cuts-to-uw-will-not-be-permanent/article_c49a4598-e892-11e1-a030-001a4bcf887a.html
- 11 All dollar figures in this brief have been adjusted for inflation to allow a more accurate comparison between different years.
- 12 UW system 2015 budget.
- 13 The Lumina Foundation, “A Stronger Nation Through Higher Education: Wisconsin,” <http://strongernation.luminafoundation.org/report/#wisconsin>
- 14 National Center for Education Statistics, Integrated Postsecondary Education Data System, via The Chronicle of Higher Education: http://collegecompletion.chronicle.com/state/#state=wi§or=public_four
- 15 The Georgetown University Center on Education and the Workforce, “Help Wanted: Projections of Jobs and Education Requirements Through 2018: State-Level Analysis” 2010, <https://cew.georgetown.edu/wp-content/uploads/2014/12/State-LevelAnalysis-web.pdf>
- 16 National Center for Higher Education Management Systems, “State Educational Attainment by Age Group and Degree Level,” <http://www.higheredinfo.org/dbrowser/?level=nation&mode=map&state=0&submeasure=239>
- 17 The Lumina Foundation, “A Stronger Nation Through Higher Education: Wisconsin,” <http://strongernation.luminafoundation.org/report/#wisconsin>