Building Ohio's Future Middle Class:

Addressing the Challenges Facing Young Adults

A BETTER DEAL
Expanding Opportunity for a New Generation

Dēmos

POLICY MATTERS OHIO

Nancy K. Cauthen
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ABOUT DĒMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world.

Dēmos was founded in 2000.

Miles S. Rapoport, President
Tamara Draut, Vice President of Policy and Programs

ABOUT POLICY MATTERS OHIO

Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to an economy that works for Ohio. We seek to create a more prosperous, equitable, sustainable and inclusive economy, through research, media work and advocacy. Areas of inquiry for Policy Matters include work, wages, education, housing, energy, tax and budget policy, and economic development.

All reports are available at **www.policymattersohio.org**.

ABOUT THE A BETTER DEAL INITIATIVE

A BETTER DEAL
Expanding Opportunity for a New Generation

Dēmos' Postsecondary Success Project is part of a larger initiative on expanding opportunity for young people, A Better Deal: Expanding Opportunity for a New Generation. This initiative is a multi-year policy and advocacy campaign designed to address the declining economic opportunity and security facing a new generation of young people. Over the last 30 years, it has become increasingly difficult for young people to enter and remain in the middle class. All the hallmarks of a middle-class life—a college education, a job with decent pay and benefits, home ownership, the ability to provide opportunity for one's children, and a secure retirement—are harder to come by in today's America.

The goal of the A Better Deal initiative is to reverse decades of declining opportunity and growing insecurity by developing and advocating for bold new policy ideas. Working closely with advocates, policymakers, young leaders, and other stakeholders, we seek nothing short of a new social contract for the 21st Century that will provide a bridge into the middle class for those at risk of being left behind.

ACKNOWLEDGEMENTS

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AUTHORS' BIOS

Nancy K. Cauthen is Director of the Economic Opportunity Program at Dēmos, where she brings two decades of experience researching and analyzing public policies that promote opportunity and reduce economic hardship. Nancy's recent work focuses on renewing the social contract with the next generation with an emphasis on three key policy areas: increasing postsecondary success among young people from low- and moderate-income families; improving supports for families raising young children; and strengthening Social Security. Prior to coming to Dēmos in February 2009, Nancy spent 10 years at the National Center for Children in Poverty at Columbia University, where she served as Deputy Director and Director of Family Economic Security. There she conducted research on federal and state work support policies such as earned income tax credits, child care assistance, and health insurance; the connections between family economic status and children's chances for success; measures of poverty and income adequacy; welfare reform; and why Social Security matters for children. She speaks nationally on these topics and has testified before Congress and state legislatures. A political and historical sociologist by training, Nancy received her PhD in Sociology from New York University and also holds degrees from the University of Michigan-Ann Arbor and the University of Wisconsin-Madison.

Amy Hanauer is the founding executive director of Policy Matters Ohio, a non-profit, non-partisan policy research institute dedicated to examining issues that matter to working families in Ohio. In 2008, *The Nation* magazine named Policy Matters the most valuable state or regional organization in the country. Since the group started in January of 2000, Policy Matters has produced more than 160 reports, generated more than 1,600 media stories, and begun to change the economic debate in Ohio. Amy has a Masters of Public Administration from the University of Wisconsin-Madison and a B.A. from Cornell University. She has previously done research and policy work in Wisconsin, Colorado and Washington, D.C. For Policy Matters, in addition to running the organization, Amy does research on work, wages, tax policy, energy policy and other issues. Amy is on the Board of Directors and the Executive Committee of Dēmos and on the advisory committee to the national Economic Analysis and Research Network (EARN). She serves on the Ohio legislative Compact with Ohio Cities Task Force and was invited earlier this year to be part of a panel discussion with Vice President Joe Biden on the future of manufacturing.

Viany Orozco joined Dēmos in October 2008 to provide research and analysis on the economic challenges facing young people, with a particular focus on state-based policy solutions. She has co-authored several reports on postsecondary success, including *Work Less Study More and Succeed: How Financial Supports Can Improve Postsecondary Success* and *Graduated Success: Sustainable Economic Opportunity Through One- and Two-Year Credentials*. Viany's writings have appeared in *The American Prospect*, *The Hill*, and *WireTap*. As a researcher at MDRC and the Drug Policy Alliance, Viany's previous work focused on program evaluation and drug policy. She has a B.A. in political science from UC Berkeley and a Masters in Pubic Affairs from Princeton University.

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INTRODUCTION

Today's young adults are coming of age in a tough economy, on the heels of 30 years of declining economic opportunity and security for all but the most affluent and most highly educated. These changes are quite evident in Ohio, where the once-mighty manufacturing sector that provided better-than-average jobs in the 1960s and 1970s has eroded, hitting young adults particularly hard. Although many of the levers of opportunity that once fueled and defined America's middle class have weakened or broken, a reorientation could restore opportunity and provide today's young adults with a more secure economic future.

In the decades following World War II, Americans experienced rapid economic growth and social mobility, which produced a strong and burgeoning middle class. But the postwar middle class was no accident: our government, business leaders, workers and veterans forged an implicit social contract that ushered in unprecedented prosperity.

After World War II, first the GI Bill and then the Higher Education Act of 1965 increased college access and affordability. Homeownership increased as government programs enabled more people to obtain home loans, made mortgage interest tax deductible, promoted suburban housing development, and enacted reforms targeting discriminatory lending practices. Income and wealth grew as public policy fueled the economy by ensuring a tight labor market, promoting full employment, and erecting fewer barriers to union organizing; federal legislation raised the minimum wage to a historic high in 1968.

America's postwar middle class was no accident: our government, business leaders, workers, and veterans forged an implicit social contract that ushered in unprecedented prosperity.

These postwar policy efforts and investments, combined with the commitment of employers to provide health and pension benefits, created a system through which millions of Americans could enter the middle class. Ohio provided ingenuity, muscle, and infrastructure and reaped many benefits including good jobs for skilled blue-collar workers and a commitment to higher education reflected in a strong state university system. Over time, as overt discrimination declined, opportunities expanded for women, blacks and Latinos, and these groups continue to reap the benefits of a more inclusive society.

The world has changed dramatically since the mid 1970s, however, with technology and globalization vastly altering the nature of work. Global competition puts downward pressure on American wages and many of the new jobs created in the service economy pay less than the manufacturing jobs they replaced. Defending against these trends, many industries have slashed labor costs—cutting jobs, wages and benefits. The social contract has frayed and young adults are living with the consequences.

Although our economy remains extremely productive, growth in prosperity is no longer broadly shared. Productivity rates grew by 1.3 percent each year between 1979 and 1989, by 1.6 percent annually between 1989 and 2000, and by 2 percent annually between 2000 and 2007. But middle-class Americans did not, for the most part, share in this impressive growth. During the postwar period, typical families saw much more of the gains from the rising productivity to which they contributed.[1]

Employment has become less stable and less secure, especially for those without a college degree. Although more young Ohioans are enrolling in college than in the past, skyrocketing costs are hindering the ability of low- and middle-income students to stay in school and graduate. Young adults are the most likely to be uninsured of any age group, and they are racking up debt not only to pay for school but also just to cover basic expenses.

The unraveling of the social contract predates and sets a harsh context for the current economic crisis. But smarter policy at the federal level and for Ohio can rebuild the entryways to the middle class, provide more opportunity and ensure that prosperity is broadly shared for the next generation.

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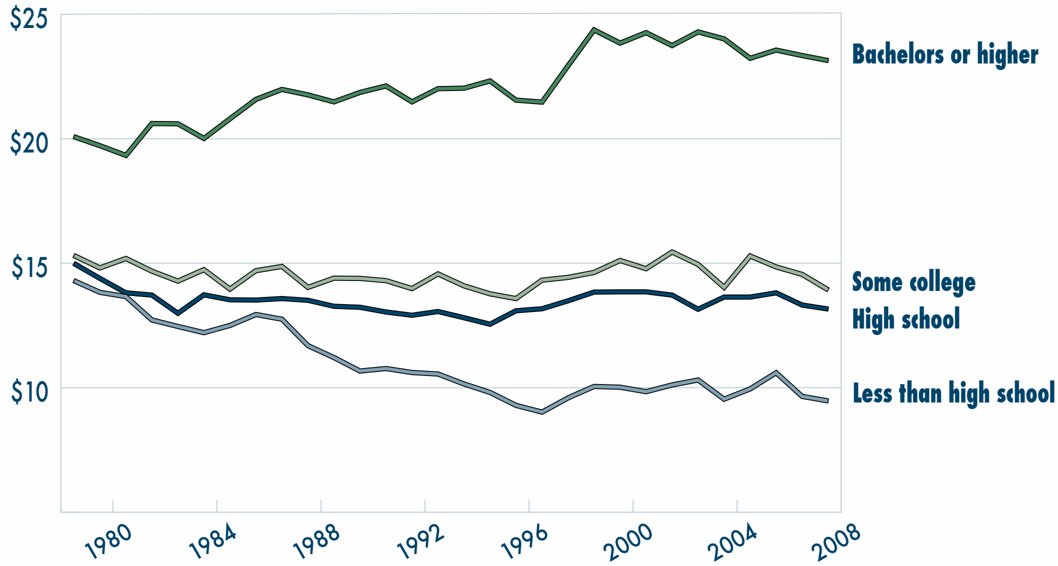
This report provides a comprehensive portrait of today's young adults in Ohio and, where possible, compares their economic status to that of the previous generation. The term "young adults" in the report generally refers to 18- to 34-year-olds. The report is organized into four key areas: post-secondary education, employment and earnings, debt and assets and raising a family. It concludes with a set of policy recommendations that would help rebuild and restore the middle class.

POSTSECONDARY EDUCATION

Over the last several generations, Ohioans have become more highly educated, and young adults continue to pursue higher education in ever growing numbers. Earnings grow dramatically with each additional level of schooling completed, and workers with a bachelors degree earn more than twice as much as those without a high school diploma (Figure 1). Earnings for those with only a high school education or less have stagnated or dropped. Many Ohioans understand that getting a college education is as important as getting a high school diploma used to be.[2]

Figure 1. **Median Hourly Wages of Ohio Workers by Education, 1979-2008 (2008 dollars)**



Source: Economic Policy Institute analysis of Current Population Survey data, using CPI-U-RS.

In the decades following World War II, Ohio and the U.S. experienced a rapid rise in education levels. In 1940, just a quarter of Ohio adults had a high school degree, and fewer than 5 percent had a bachelors degree. By 2000, 83 percent of Ohioans had a high school diploma and 21 percent had a four-year degree.[3] While the postwar period was responsible for much of this increase, college attainment levels have risen in each decade, and gains for women and minorities have been most impressive in recent decades.

The thirst for education continues to grow among young people in Ohio and the nation. Nationally, the percent of high school seniors who said they expect to earn a bachelors degree or higher nearly doubled from 35 percent in 1980-1 to 69 percent 20 years later. Rising educational aspirations are evident across racial and ethnic groups, with low-income students showing the most striking increases: in 1980-1, only 16 percent of 12th graders in the lowest socioeconomic quartile[4] expected to earn a bachelors degree or higher, but by 2003-4, that figure had more than tripled to 51 percent. During that same period, women's educational aspirations have outpaced men's.[5]

Rising aspirations have translated into steadily increasing college enrollments. Just in the last decade, undergraduate enrollments increased 19 percent between 2000 and 2007. But improvements in college attainment rates have been slow: during that same period (2000 to 2007), the percent of young adults ages 25 to 29 years old with a bachelors degree held steady at roughly 29 percent.[6] And substantial gaps remain in college attainment rates by income, race and ethnicity; women have surpassed men in educational attainment.

Over the last 25 years, going to college has become less affordable as states have slashed aid to colleges and universities, tuition and fees have risen dramatically, and financial aid has not keep pace. Students and their families now pay (or borrow) a lot more for a college degree, and more students work—and work longer hours—to put themselves through school. All of these factors increase the risk for young people, especially those from low- to moderate-income families, to enroll in college only to drop out because of financial constraints.

In both Ohio and the nation, the result is low completion rates: roughly half of all four-year college students drop out within six years of enrolling. The percentage of dropouts is even higher for two-year students. Below we discuss these trends in greater detail and identify some opportunities for improving postsecondary success in Ohio.

College Enrollment Has Grown Steadily in Ohio

» **Enrollment gains**. Among 18- to 24-year-olds in Ohio, the percent enrolled in college increased from 30 to 34 percent between 1991 and 2007.[7] And there are reasons to be hopeful that college enrollment levels will continue to grow in Ohio. According to Governor Ted Strickland's January 2010 State of the State Address, enrollment in community colleges has grown 23 percent over the last three years and nearly 66,000 more Ohioans are enrolled in the state's public colleges and universities than in 2006.[8]

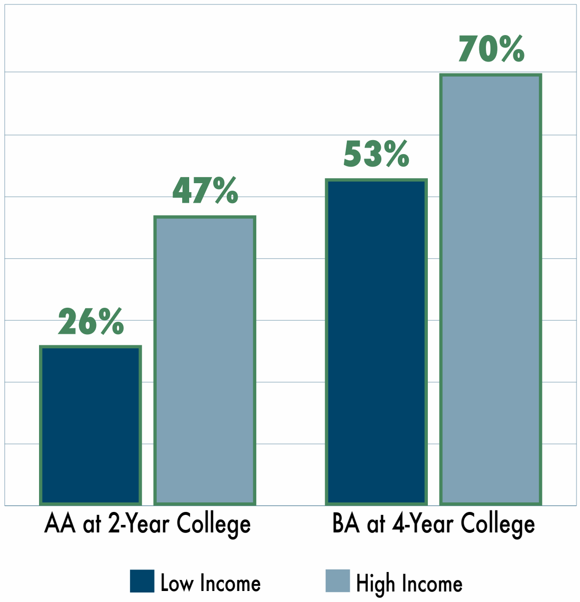
» **Gaps by income, race and ethnicity**. Young adults from high-income families in Ohio are three times more likely to enroll in postsecondary education than low-income young people. The gap in college enrollment between white and African-American 18- to 24-year-olds in Ohio is 14 percent and the gap in college enrollment between whites and Latinos of the same age group is 21 percent.[9] Providing more need-based financial aid would help reduce these enrollment gaps.

Many Who Seek Higher Education Are Unable to Complete Degrees

» **Completion rates.** In Ohio, just over half (55 percent) of students who seek a bachelors degree graduate within six years, which compares favorably to the nation as a whole. Among two-year students, only a quarter (26 percent) earn a degree within three years.[10]

» **Gaps by income, race and ethnicity**. Low-income students at four-year colleges in Ohio are nearly twice as likely to end their studies without completing a degree than their higher-income peers (28 percent versus 15 percent). Low-income students at two-year colleges are half as likely to earn a degree in comparison to their high-income peers (Figure 2).[11]

Figure 2. **Six-Year College Completion Rates in Ohio by Income, 2004**



Source: State of College Opportunity in Ohio 2005.

While 58 percent of white students in Ohio seeking a bachelors degree graduate within six years, only 33 percent of black students do. This 25 percentage point gap in completion rates between whites and blacks in Ohio is substantially higher than the national gap, which is 19 percent. The completion gap between white and Latino students in Ohio is 11 percentage points.[12]

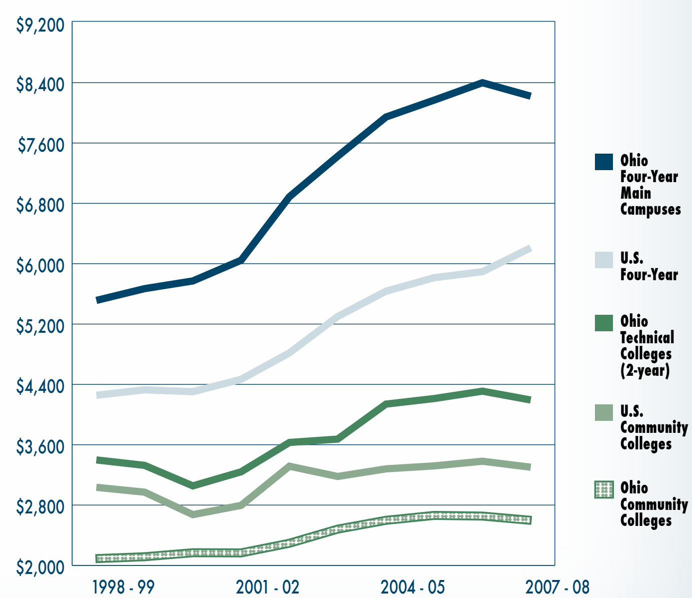
College Attainment Rates in Ohio are Increasing, but Slowly

» In 2008, 33 percent of Ohio adults (age 25 to 64) had an associate's degree or more education, up from 25 percent in the early 1990s. This attainment rate is lower than the best states, where 44 percent of adults have an associate's degree.[13] In 2008, 28 percent of 25- to 34-year-olds in Ohio had completed a bachelors degree (the national figure for bachelors degrees of this age group is 30 percent).[14] Both nationally and in Ohio, the rates are gradually improving. However, given the declining labor market returns to those with less than a college degree, the increases have not been sufficient enough to protect living standards.

Tuition Costs are High in Ohio But Increases Have Been Controlled

» **Tuition and fees**. Over the last decade, tuition and fees at public four-year universities in Ohio increased by 33 percent. Over the same time period, tuition and fees at community and technical colleges rose by 20 percent (Figure 3).[15] Before the current financial and fiscal crisis, policymakers had devoted substantial resources and made it a priority to hold tuition steady, a welcome change for this high tuition state. Tuition was frozen for fiscal years 2008 and 2009, but a planned third-year freeze was eliminated. Legislation passed in July 2009 allows public col-

Figure 3. **Annual Tuition and Fees in Ohio and the U.S., 1998-2008 (2008 dollars)**



Source: Ohio Board of Regents, Survey of Student Charges 1989-2008.

Figures are not weighted for enrollment.

leges and universities to increase tuition up to 3.5 percent in each of the two years covered by the 2010-11 biennial budget.

» **Ohio compared to the U.S**. The average tuition levels for public two- and four-year colleges and universities in Ohio, which enroll 75 percent of college students in the state, are well above national averages—32 percent higher for main campuses, 27 percent higher for community colleges, and 61 percent higher for technical colleges.[16]

Financial Aid Has Not Kept Pace with College Costs

» **Financial aid versus cost.** Full-time students from low- to moderate-income families attending four-year public universities in Ohio face an average of $10,265 a year in uncovered expenses after accounting for all grant aid received.[17] At the lowest-priced colleges in the state—community colleges—full-time students from low- to moderate-income households face an average of $8,042 in uncovered expenses annually.

» **Cuts in financial aid.** Ohio's response to the struggling economy has taken its toll on need-based financial aid. For example, the Ohio College Opportunity Grant, which is the main source of financial support for students from modest backgrounds, was reduced by approximately $225 million for fiscal years 2010 and 2011.[18]

Long Work Hours and Part-Time Enrollment Impede Success

» **Long work hours**. Financial constraints lead many young people to work long hours in order to finance their education, compromising their academic progress. A national study finds that about 40 percent of students who worked full-time while enrolled left school within three years, compared to about 20 percent of those who worked part-time. Young community college students are particularly affected by the need to work. Nationwide, a larger percentage of young community college students work than their counterparts at public four-year institutions—and they work much longer hours.[19]

» **Part-time enrollment**. In addition to the pernicious effects of employment on their studies, long work hours also lead many young community college students to enroll part-time. In Ohio, almost half of students under age 25 attending a community college (43 percent) enroll part-time.[20] Yet part-time enrollment is not conducive to success in college. A study of well-prepared Ohio community college students (those not enrolled in remedial math) found that 62 percent of full-time students left school without completing a degree, compared to a whopping 83 percent of part-time students. Neither rate is encouraging, but clearly part-time enrollment is more challenging.[21]

EMPLOYMENT AND EARNINGS

The typical earnings of full-time workers under age 35 are substantially lower today in real terms than they were a generation ago. In Ohio, the one exception to this general trend is earnings for women ages 30 to 34 with some college education, especially those with at least a four-year degree. College-educated women in Ohio in their early to mid 30s earn 7 percent more than their counterparts 40 years ago. During the same period, young male workers ages 20 to 24 without a college degree in Ohio experienced wage declines of more than 40 percent.[22]

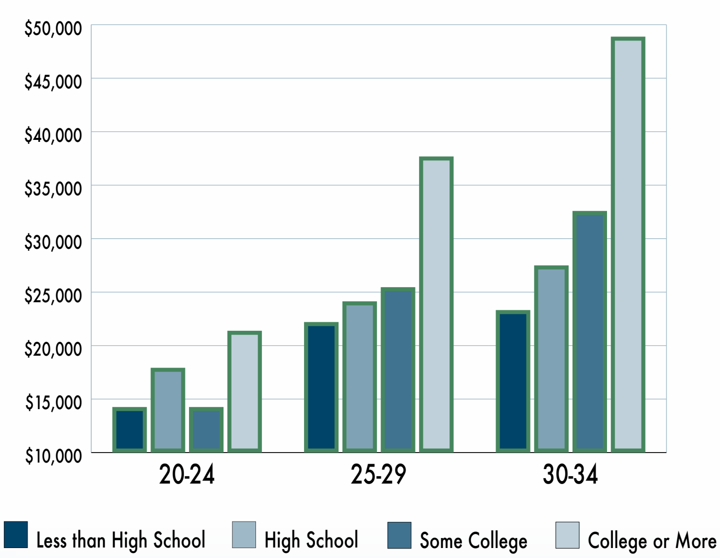
The lower wages of today's young workers can be explained, both in Ohio and nationally, in part by the disappearance of unionized manufacturing jobs that offered good wages and benefits for workers with only a high school diploma. These jobs have largely been replaced by non-union, low-wage service jobs that often don't provide health insurance or retirement benefits. Over a third of older workers in Ohio were unionized in 1983 compared to 18 percent now. Among younger workers (under age 35), the unionization rate declined from 21 to 10 percent over the last 25 years.[23]

In addition to lower wages and fewer fringe benefits, today's young workers have a much harder time advancing in the labor force than did their parents. Since the 1970s, middle-management and other jobs that provided stepping stones to better pay and greater security have been slashed or outsourced and replaced by jobs with lower pay, fewer benefits and less security.

Stark Differences in Earnings by Education, Race and Gender

» **Education**. The earnings of young workers in Ohio show the dividends of higher education—dividends that increase as workers get older (Figure 4). In 2008, workers ages 30 to 34 with at least a four-year college degree earned 44 percent more than workers with only a high school diploma; the difference in earnings between college and high school graduates ages 25 to 29 was 36 percent.

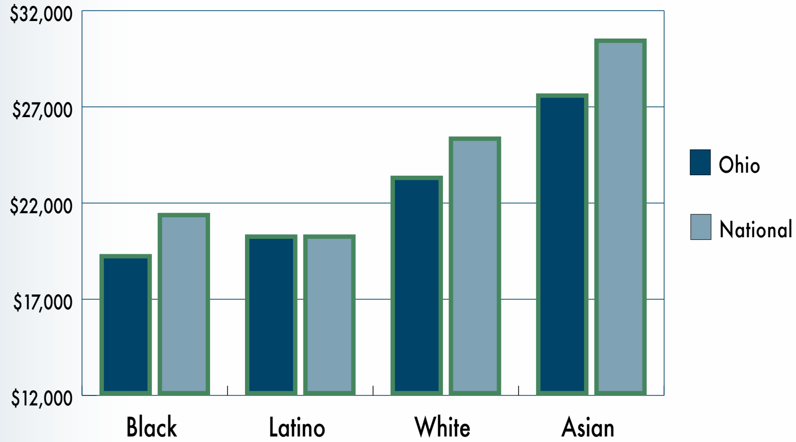
Figure 4. **Median Earnings of Young Ohio Workers by Education and Age, 2008**



Source: U.S. Census Bureau, 2008, American Community Survey. Workers defined as individuals who worked at least 40 weeks in the year.

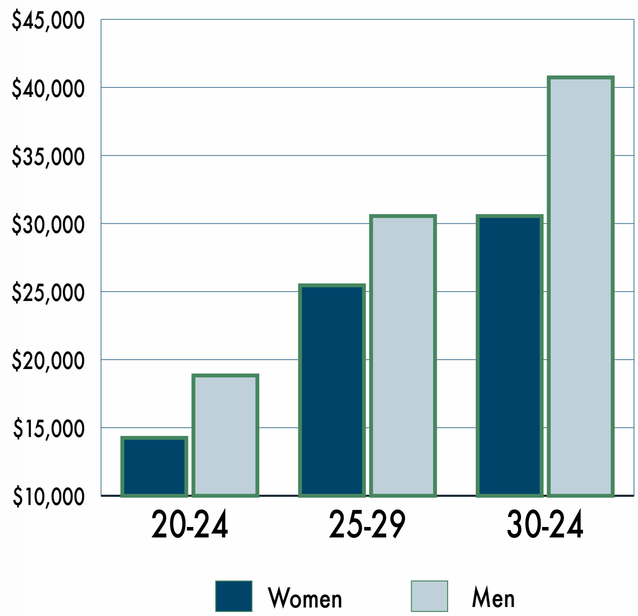
» **Race.** The earnings of young workers in Ohio differ by race as well. In 2008, typical incomes for white workers under age 30 were 17 percent higher than earnings of African Americans and 13 percent higher than those of Latinos. The earnings of young Asian-American adults in Ohio were 15 percent higher than for young whites, although

Figure 5: **Median Earnings of Workers Ages 20 to 29 in Ohio and the U.S. by Race, 2008**



Source: U.S. Census Bureau, 2008, American Community Survey. Workers defined as individuals who worked at least 40 weeks in the year.

Figure 6. **Median Earnings of Young Ohio Workers by Gender and Age, 2008**



Source: U.S. Census Bureau, 2008, American Community Survey. Workers defined as individuals who worked at least 40 weeks in the year.

Asian Americans account for less than two percent of the population in Ohio. For all racial and ethnic groups except Latinos, the earnings of workers under age 30 in Ohio are below the national average (Figure 5).

» **Gender**. The gender gap in income is considerably larger than the race gap. Young male workers ages 20 to 24 years and those ages 30 to 34 in Ohio earned about 25 percent more in 2008 than their female counterparts. The gender gap was lower (17 percent) for workers 25 to 29 years (Figure 6). This is also despite the fact that young women have surpassed young men in educational attainment.[24]

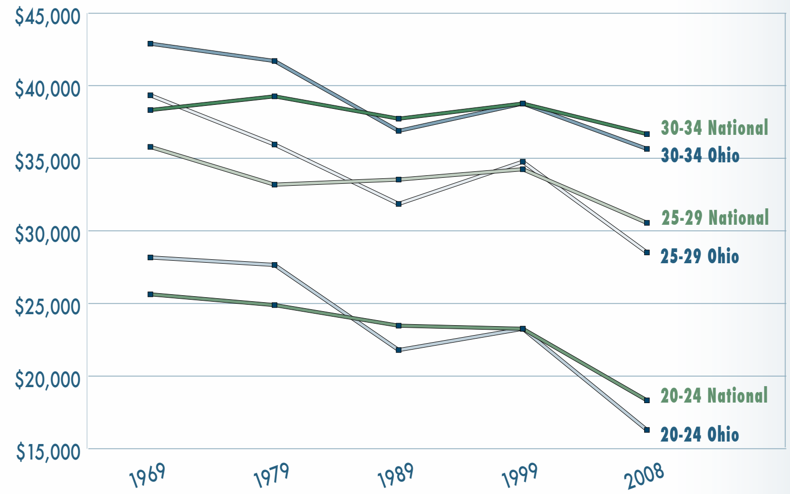
Steep Declines in Earnings for Young Workers Over Time

» **Overall trends.** Ohio workers under age 35 experienced steep declines in earnings (after adjusting for inflation) over the last four decades. The trends were most dramatic for the youngest workers (ages 20 to 24 years), for whom median wages fell 42 percent since 1969. Workers ages 25 to 29 experienced a 27 percent decline in median earnings during that time; the drop was 17 percent for workers 30 to 34. Earnings for 2008 do not show the full effects of the recession, which hit young workers ages 20 to 29 the hardest. This is despite the fact that young workers today are more likely to have obtained a college degree than young workers of a previous generation.[25]

» **Trends for Ohio compared to the nation**. Although median earnings for young workers in Ohio were higher than median earnings nationally in 1969, that was no longer true by 1989. Over the last decade, the incomes of workers under age 30 declined much more steeply in Ohio than nationally (Figure 7).

- **Trends by education level**. Although the earnings of workers with higher levels of education declined less steeply from 1969 to 2008 than the incomes of those with less education, the earnings of all workers fell during this time period. Declines in earnings range from a 19 percent drop for college-educated workers ages 30 to 34 to a 49 percent decrease for workers ages 20 to 24 without a high school diploma.

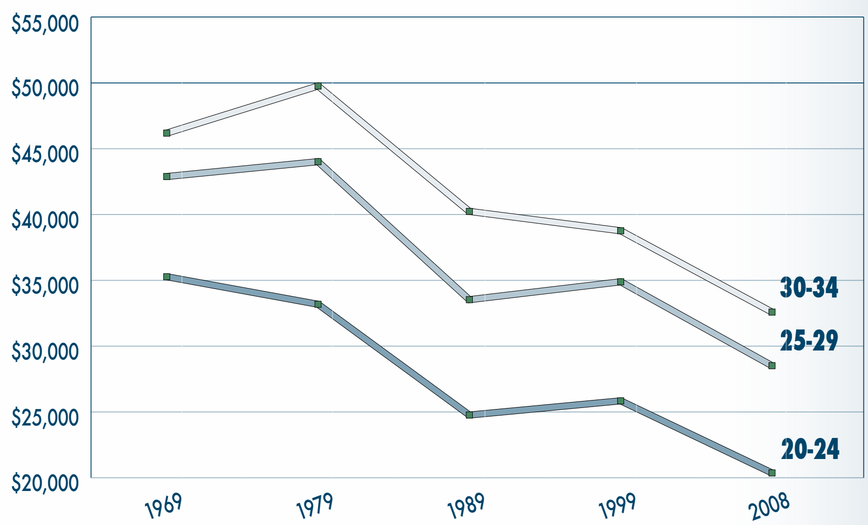
Figure 7. **Median Earnings of Workers Ages 20 to 34 in Ohio and the U.S., 1969-2008 (2008 dollars)**



Source: U.S. Census Bureau, Decennial Census 1960-99 and American Community Survey 2008. Decennial Census analysis conducted by David Knox, *Akron Beacon Journal*. Workers defined as individuals who worked at least 40 weeks in the year.

Men with Limited Education and the Youngest Workers Have Been Hardest Hit

Figure 8. **Median Earnings for Young Men with a High School Diploma in Ohio by Age, 1969-2008 (2008 dollars)**



Source: U.S. Census Bureau, Decennial Census 1969-99 and American Community Survey 2008. Workers defined as individuals who worked at least 40 weeks in the year. Decennial Census analysis conducted by David Knox, *Akron Beacon Journal*.

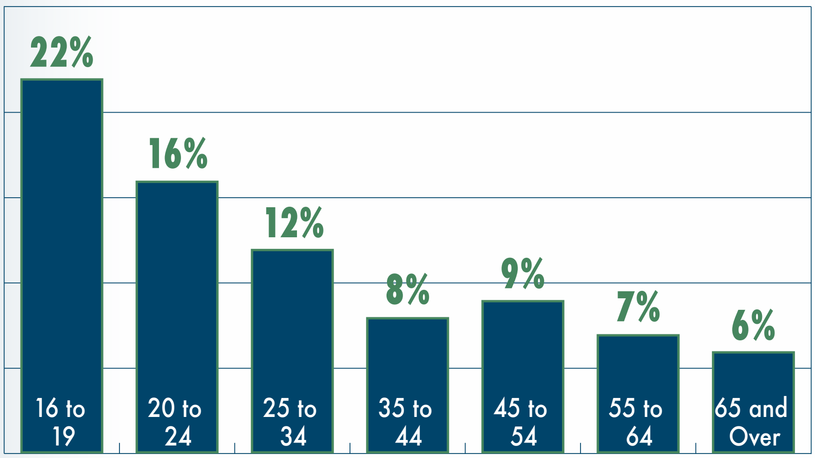
- **Trends for men with only a high school diploma**. From 1969 to 2008, the earnings for Ohio men with only a high school degree declined 42 percent for workers ages 20 to 24, 33 percent for those 25 to 29, and 29 percent for workers 30 to 34 (Figure 8). The declines in earnings for women with only a high school diploma were substantial but significantly lower than those for men, ranging from 12 percent for women workers ages 30 to 34 to 29 percent for women ages 20 to 24. Of course, women started out earning far less than similarly-educated men, and still earn less than men with comparable education.

- **Trends for the youngest workers**. Regardless of education, race or gender, the trends in earnings are the worst for workers under age 24. The earnings of Ohio workers ages 20 to 24 declined 43 percent for men, 35 percent for women, 41 percent for whites and 35 percent for blacks.

High Rates of Unemployment and Underemployment

» **Unemployment**. Young workers in Ohio are far more likely to be unemployed than middle-aged or older workers, despite the fact that young workers are significantly better educated than their older counterparts (Figure 9).[26] For 2008, the annual unemployment rate for workers under age 24 in Ohio was 15 percent—the highest since 1985.[27] Unemployment has gotten worse for all groups, particularly for young people during 2009 and early 2010.

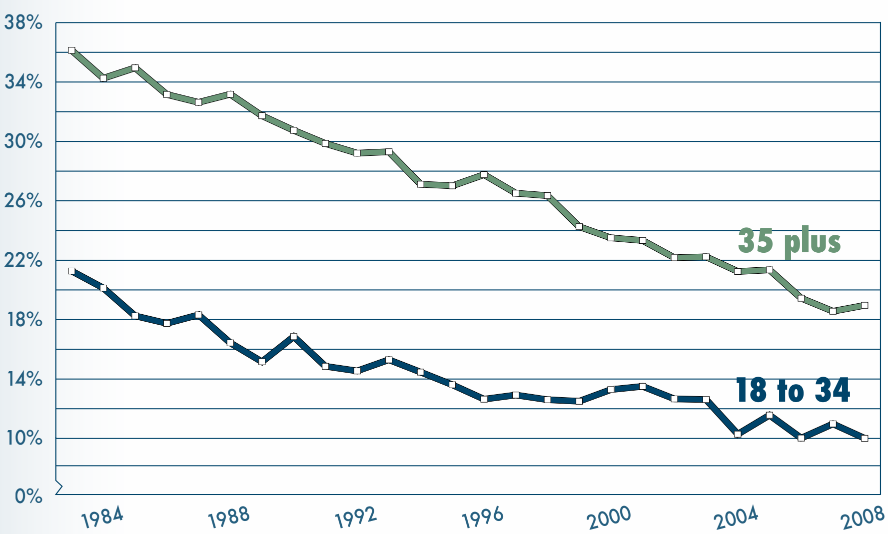
Figure 9. Unemployment Rates in Ohio by Age, 2009



Source: U.S. Census Bureau, Current Population Survey.

» **Underemployment**. The situation facing young job seekers is even more troubling when taking underemployment into account—the "underemployed" include workers who want full-time work but can find only part-time jobs, people who have given up looking for work, and the unemployed. More than 23 percent of workers under age 24 in Ohio were underemployed by the end of 2008. Both unemployment and underemployment worsened substantially during 2009.[28]

Figure 10. Union Coverage in Ohio by Age, 1983-2008



Source: Economic Policy Institute's analysis of the Current Population Survey.

Dramatic Declines in Unionization Rates

» Unionization can provide workers with better wages and benefits, but a declining share of Ohio's workers are unionized. Union coverage of 18- to 35-year-olds declined 53 percent in the last 25 years. Workers ages 35 years and older experienced a 47 percent decline in union coverage during the same period. The 2008 unionization rate among young workers (under age 35) in Ohio was a paltry 10 percent (Figure 10).

DEBT AND ASSETS

As incomes have failed to keep pace with rising costs, debt has become a generation-defining characteristic for today's young adults. Contrary to conventional wisdom, most debt accumulated by young people is not the result of frivolous spending (although some of it undoubtedly is). The problem typically begins with student loan debt, which affects both community college and four-year students. Nationally, two-thirds of students borrow money to pay for college, and graduates have an average of $23,000 in student debt (the average is slightly higher in Ohio). As tuition increases continue to outpace growth in family income and federal student loan limits, more young people are turning to private loans that typically carry higher interest rates and less flexible payment options.

Beyond student loans, today's young adults are increasingly relying on credit cards to cover basic living expenses, particularly during their first years in the labor force. Starting wages are often inadequate to cover the rising costs of housing, transportation and health care while meeting student loan obligations.

Although credit can serve as a necessary and critical lifeline for adults of all ages, the problem for young adults comes with accumulating so much debt so early in adulthood. The large proportion of uninsured young adults, coupled with inadequate coverage among those who do have health insurance, hurts young people's health and puts them at high risk of getting into medical debt, further limiting their ability to build assets. Recently passed health care reform, however, will begin to address these problems.

The challenge is to find solutions to help young people meet basic expenses for education and living in the short-run without threatening their ability to meet future financial needs like supporting a family, building assets and saving for retirement.

Student Loans and Credit Cards as Lifelines

» **Student loans.** To pay for their education, more than half of students take out loans. In academic year 2007-08, 66 percent of four-year college graduates in Ohio had student debt. The average amount of debt was $23,854, putting Ohio in 13th place in the nation in average student loan debt.[29] In just one academic year, community college students took out an average of $2,726 in federal student loans (Figure 11). In addition to federal loans, Ohio students also rely on private loans—in 2007-08, 14 percent of all undergraduates in the nation had a private loan.[30] This figure likely understates reliance on private loans as many students get such loans through their parents. Private loans generally have higher interest rates and have fewer borrower protections.

Figure 11. Federal Loans Taken by Ohio's Public College and University Students, 2006-07		
	Percentage of students	**Average loan per year**
Community & technical colleges	37%	$2,726
Four-year public regional campuses	49%	$4,222
Four-year public main campuses	57%	$5,763

Source: Ohio Board of Regents, Financial Aid Awarded to First-Time, Full-Time, Degree-Seeking Undergraduates in FY 2006-07, March 2009.

» **Credit card debt**. Although there is little state-specific information about credit card debt, the national figures are cause for alarm. A recent national survey of low- and middle-income households conducted by Dēmos shows that in mid 2008, young adults (18 to 34 years) nationally had an average of $9,111 in credit card debt.[31] Further, more college students are relying on credit cards and carrying larger balances. In 2008, the average credit card balance among undergraduates was $3,173. Median undergraduate credit card debt grew from $946 in 2004 to $1,645 in 2008—an increase of 74 percent in just four years.[32]

Rents are High Relative to Incomes

» Although housing prices are substantially lower in Ohio than on the east and west coasts, many young people still have to spend large portions of their income on housing, hampering their ability to cover other expenses. In 2007, 18- to 24-year-olds spent 42 percent of their income on rent and 25- to 34-year-olds spent 34 percent of income on rent.[33] Across all age groups in Ohio, 45 percent of renters were "housing-cost burdened" in 2007—that is, they spent 30 percent or more of household income on rent and utilities.[34]

Many Young People Lack Health Insurance

» The percent of young people who lack health insurance, in Ohio and nationally, is high. More than a fifth of Ohio's young people—23 percent of adults under age 35—were uninsured in 2008. But the problem is worse nationally, with 28 percent of young people uninsured. Ohio has higher rates of both employer-sponsored and public coverage than the nation as a whole (Figure 12). Older adults are much more likely than younger adults to have health insurance. Ohio has taken a helpful step toward addressing this by including a provision in the last state budget bill to require insurers to allow some young adults who don't have employer-provided health insurance to stay on their parents' plans up to age 28.[35] Recent federal reform—the Health Care and Education Affordability Act—will make it much easier for people without employer-sponsored coverage, particularly those with low incomes, to obtain coverage. It also allows young adults up to age 26 to stay on their parents' health plans. These provisions should significantly reduce the number of uninsured young Americans.

Figure 12. Health Insurance Coverage in Ohio and the U.S. by Age, 2008

	Ohio		U.S.
Insurance Status	**All Nonelderly Adults (under 65)**	**18- to 34-Year-Olds**	**18- to 34-Year-Olds**
Uninsured	13.4%	22.7 %	27.8%
Private **(employer/union, purchased directly, TRICARE/other military)**	73.8%	66.2%	63.2%
Public **(Medicare, Medicaid/other government assistance, VA)**	16.5 %	12.6 %	10.4%

Source: U.S. Census Bureau, American Community Survey, 2008.

Households Need More Opportunities to Build Assets

It is not surprising that in Ohio, as in other states, stagnant household incomes have made it much more difficult for young people and families to accumulate savings and other assets. There is little state-specific data on assets by age, but data for all households in Ohio provide some sense of the challenges faced by young adults.

» **Asset poverty**. A household is "asset poor" if it lacks sufficient resources to subsist at the poverty level (currently about $22,000 a year for a family of four) for three months if it were to lose its source of income. Over half (54 percent) of Ohio households in the lower-income quintile (annual income of less than roughly $25,000) are asset poor. But even among middle-income families in Ohio (earning between roughly $45,000 to $69,000), 20 percent are asset poor. Overall, rates of asset poverty in Ohio are similar to figures nationally.[36]

» **Access to mainstream financial services**. More than a quarter of U.S. households are "unbanked"—that is, they do not have checking, savings or money market accounts. In 2006, 29 percent of Ohio households were unbanked. This lack of access to mainstream financial outlets makes families vulnerable because they are forced to rely on high-cost financial service providers such as payday lenders.

RAISING A FAMILY

Most parents with children under the age of six are in their late 20s or early 30s, making issues of family leave, child care and workplace flexibility of core concern to young adults. In Ohio, 39 percent of household heads between the ages of 25 and 34 have a child under the age of six.[37] And now, unlike a generation ago, a majority of women with preschool-age children are in the labor force. Nationally, 57 percent of women with a recent birth were in the labor force in 2006[38] and roughly two-thirds of mothers with a child under age six held a paid job.

Today's young parents face steeper financial challenges than their parents did—they are deeper in debt yet also pay a larger share of their incomes for housing, health care and child care. Child care is one of the biggest expenses for young families, with average monthly fees for two children in care exceeding the median cost of rent in almost every state.[39]

Most other countries treat children as a national resource—tomorrow's workers, teachers and leaders—and therefore invest in their care. The U.S. is one of the lone countries in the world that does not provide some form of paid parental leave to help parents temporarily exit the labor force after the birth or adoption of a child. And despite the high cost of child care, especially for children below age five, the U.S. provides families with little help. A very limited number of child care subsidies are available through the states to low-income single mothers. The federal Child and Dependent Care Tax Credit provides a small subsidy, with an average benefit of $529 for a family with two children.[40] But the credit is non-refundable, which means that the lowest-income families—who don't owe federal taxes—receive no assistance from this source. Most low- and moderate-income families don't qualify for any child care assistance at all.

The high cost of raising a family coupled with stagnant and declining wages, increased debt and the high cost of housing and health care means that substantial numbers of young families face constant financial struggle. Well over 40 percent of the nation's children are growing up in low-income families during their formative years. Assisting families while their children are young pays off in the future—studies estimate that every dollar invested in high-quality early childhood programs yields roughly a seven dollar return in the future by decreasing the need for remedial education and welfare payments, improving health and reducing costs associated with crime.[41]

Young Working Parents Need Affordable Child Care

In 2007, 64 percent of Ohio families with a child under age six had working parents, as did 70 percent of families with a child older than six.[42] In 2008, 76 percent of low-income children under age six in Ohio had an employed parent.[43]

» **Child care costs.** In Ohio, as in other states, the cost of child care can be the largest expense that families face. Across the U.S., average child care fees in 2008 for an infant were higher than the average amount families spent on food. In the Midwest, the cost of having two preschool children—an infant and a four-year-old—in care was the highest monthly expense, exceeding housing costs (see Figure 13 for cost of child care in Ohio).[44]

Figure 13. Average Annual Price of Full-Time Child Care in Ohio, 2008		
	Child Care Center	**Family Child Care Home**
Infant, full-time	$9,340	$7,106
4-year-old, full-time	$7,384	$6,425
School-age child, part-time	$6,459	$5,907

Source: "Most Recent Child Care Data by State," National Association of Child Care Resource and Referral Agencies.

The average annual price of full-time center-based care for two preschool-age children (an infant and a four-year-old) in Ohio is $16,724. For low- and middle-income families, this price tag is unaffordable (Figure 14).

Figure 14. Average Annual Price of Full-Time Child Care for Two Preschool-Age Children in Ohio as a Percent of Income, 2008	
Annual Family Income	**Child Care as Percentage of Income**
Poverty-level, family of 4: $21,200	79%
Low-income, family of 4: $42,400*	39%
Middle-income, family of 4: $63,600-$84,800**	26%–20%

** Twice the federal poverty line. ** Three to four times the federal poverty line.*

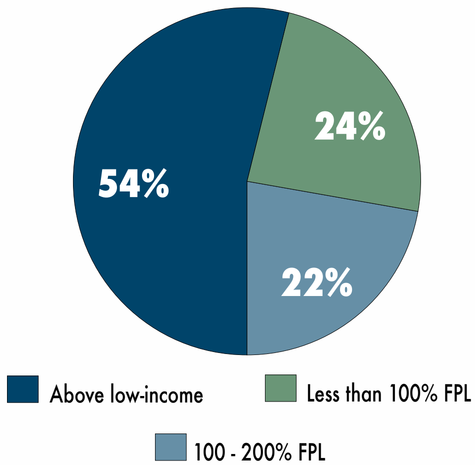
Source: NACCRRA, Parents and the High Price of Child Care, 2009 Update.

» **Effects of budget crisis.** Governor Strickland entered office voicing a deep commitment to assisting with child care and he followed through, increasing funding for child care quality and public preschool, among other services for children, in his first budget. However, some of this funding came from a surplus in federal funds—a surplus that evaporated when the recession hit and needs increased. Despite shifting more state funds into early childhood, the net result in the 2010-2011 budget was an enormous cut—an elimination of the Early Learning Initiative (which was designed to provide child care and kindergarten preparation for low-income preschoolers), a reduction of reimbursement levels to providers, and an eligibility change that eliminated child care subsidies for families earning between 151 percent and 200 percent of the official poverty level. The budget for fiscal years 2010 and 2011, passed in July 2009, reduced funding for early care and education in Ohio by $281 million.[45]

Ohio Does Not Offer Paid Parental Leave

» Only three states—California, New Jersey and Washington—have enacted paid family leave policies that provide wage replacement to new parents who take time off from employment to care for and bond with a newborn baby or adopted child.[46]

Figure 15. **Children Under Age 6 in Ohio by Family Income, 2008**



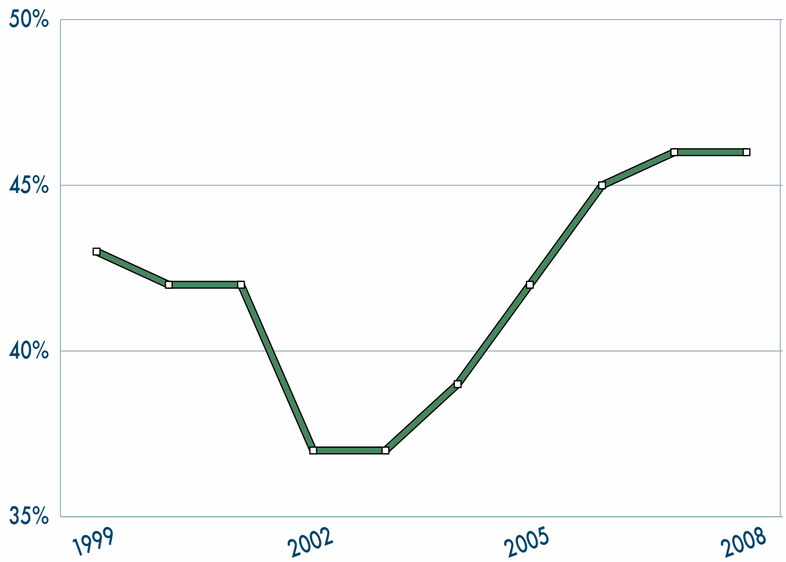
Source: National Center for Children in Poverty, Ohio Demographic Profiles.

Nearly Half of Young Children are Growing Up in Low-Income Families

» In 2008, nearly half (46 percent) of children under age 6 in Ohio lived in low-income families—defined as having income below twice the federal poverty level, which in 2008 was $42,400 a year for a family of four and $35,200 for a family of three (Figure 15). Nationally, the figure was 44 percent.

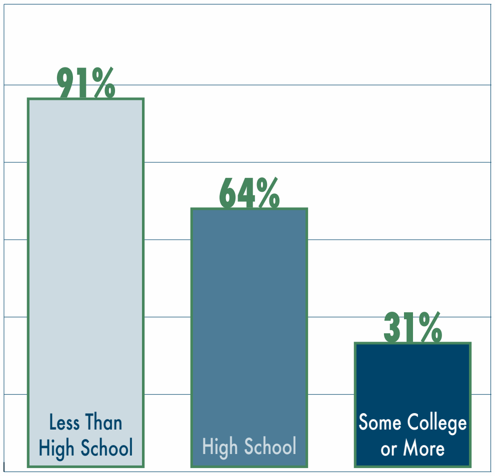
» **Trends**. Over the last decade, the low-income rate for young children in Ohio dropped from 43 percent in 1999 to 37 percent in 2002, only to sharply increase to 46 percent in 2008 (Figure 16).

Figure 16. **Percent of Children Under Age 6 in Ohio Living in Low-Income Families, 1999-2008**



Source: National Center for Children in Poverty, 2009. Families and children are defined as low-income if the family income is less than twice the federal poverty threshold.

Figure 17. **Young Children in Low-Income Families in Ohio, by Parents' Education, 2008**



Source: National Center for Children in Poverty, Ohio Demographic Profiles.

» **Education and low-income rates**. An alarming 91 percent of young children in Ohio whose parents do not have a high school degree live in low-income families, as do 64 percent of young children whose parents have a high school degree but no college education. In comparison, 31 percent of young children in Ohio with parents with at least some college credits (or more) live in low-income families. This reinforces the importance of helping young adults get a college degree (Figure 17).

POLICY RECOMMENDATIONS

Ohio and the nation as a whole had a thriving middle class during the decades following World War II—and both can once again. What is needed is a bold policy agenda to renew the social contract in ways that rebuild and create reliable pathways into the middle class for hard-working Americans. The key to a new social contract with the next generation is a strong federal framework that encourages and rewards innovative state action. Together, state and federal policy can restore the economic opportunity and security that are the hallmarks of a robust middle class. Below we discuss some policies that could create opportunity for Ohio's future middle class.

Our immediate priority has to be further relief from the recession. Federal action during the winter of 2009 prevented a collapse of the U.S. banking system and provided essential fiscal relief to the states, pulling the U.S. back from the brink of what many analysts feared could become a second Great Depression. The Recovery Act substantially reduced growth in unemployment, generating more than two million jobs and keeping unemployment rates about two percentage points lower than they otherwise would have been.[47] While last year's relief enabled states to fund basics and avoid completely gutting their budgets, painful spending cuts were still necessary. Ohio won't be able to fund next year's budget without additional federal assistance. If states are forced to make deeper spending cuts, they will have to lay off more workers and they will certainly not be in a position to add jobs. More layoffs and spending cuts will gut public services and further curb families' already compromised spending power. All of this would create a downward spiral and potentially erase the progress that has been made to date. In short, recession relief is the first order of business—and it's a federal responsibility.

Below we offer specific policy recommendations, some federal reforms and some state, some short-term and some longer-term. Collectively, the goal of these recommendations is to reverse 30 years of declining investments in the kinds of opportunities that are the heart of the American Dream.

Postsecondary Education

Ohio historically has had higher postsecondary tuition than the nation as a whole. But in recent years, despite a tight state budget, Governor Strickland has prioritized education, holding down tuition increases; tuition increased less in Ohio than in any other state over the last three years. Due partly to that, community college attendance in Ohio went up 23 percent over that period, and college and university attendance went up dramatically as well. Adequate preparation in high school is key to postsecondary success, and Ohio also increased funding for K-12 during a tight budget. This maintenance of effort on K-12 and higher education was largely because of the infusion of funds from the American Recovery and Reinvestment Act. But despite holding the line on education spending, tuition remains higher in Ohio than elsewhere and need-based financial aid, which is essential for enabling low- and middle-income young people to afford college, has been cut.

The Healthcare and Education Affordability Act passed by Congress in March 2010 made a historic investment in need-based financial aid. It eliminated wasteful subsidies for private student lenders, creating savings of $61 billion over 10 years—$36 billion of which will be invested in Pell grants, the nation's largest need-based grant program. To protect the purchasing power of Pell grants, the maximum grant will be increased to $5,975 by 2017. The recent legislation also includes: changing the Income-Based Repayment program to limit monthly federal student loan payments to 10 percent (instead of 15 percent) of discretionary income for loans taken out after 2014; $750 million in support for innovative programs supporting college access and completion; $2.55 billion over 10 years for Historically Black Colleges and Universities and Minority-Serving Institutions; and $2 billion for community colleges to develop and improve educational or career training programs. These sizeable investments were originally part of a larger higher education bill, the Student Aid and Fiscal Responsibility Act (SAFRA), which passed the U.S. House of Representatives in September 2009 but was not considered in its entirety in the Senate.

To ensure postsecondary success for Ohio's young adults, especially those from low- and moderate-income families, policymakers should:

» **Take action on components of SAFRA not included in the Healthcare and Education Affordability Act.** For example:

- Enact the American Graduation Initiative, which would invest more than $12 billion in community colleges over the next 10 years.
- Allocate $3 billion to the Access and Completion Fund to bolster college access and completion support programs for students.
- Increase access to the Perkins Loan program, a campus-based program that provides low-cost federal student loans.
- Keep interest rates low on need-based (subsidized) federal student loans by making the interest rates on these loans variable beginning in 2012.

» **Increase state investments in the higher education system.** The immediate priority should be to hold state tuition steady and restore need-based aid. Tuition at Ohio's public colleges and universities continues to be quite high relative to other states. Ohio must continue to hold tuition steady and restore our need-based aid, so that all Ohio students who qualify can have the chance to further their education. As the state recovers from the current fiscal crisis, it will be important to continue to invest in higher education—and to resist the national trend toward state disinvestment.

» **Make postsecondary education work for students**. In addition to easing the financial burdens that impair student success—including the need to work long hours—higher education institutions, with support from the state, should implement practices that better serve the needs of today's working students. Such practices include holding classes at night and online, offering child care on campus and making student supports (such as the financial aid office, student counselors, the library and the computer lab) available evenings and weekends. We must acknowledge the many responsibilities that young Ohioans juggle on their way to a degree, and put in place more supports so they can achieve that goal.

Employment and Earnings

After a period of robust and sustained wage growth after World War II, earnings stagnated in Ohio and the nation as a whole, and they declined sharply for those with only a high school diploma. Ohio has lost much of its manufacturing sector and, with it, the unionized jobs that provided decent wages and good health and retirement benefits. The rise of the service sector has replaced some of the positions, but the new jobs don't bring the wages, benefits or security of lost manufacturing jobs. Even before the recession, unemployment and underemployment were high, leaving too many families struggling to pay the bills. What would help?

» **Create a national public jobs program.** Federal fiscal relief won't be enough to relieve the high unemployment rate, which is expected to remain high for at least the next couple of years. Spending from the Recovery Act targeted immediate need, improved Ohio's infrastructure, and put about 25,000 Ohioans back to work through direct public spending. Many others have stayed employed because those 25,000 employees spend money as consumers. The Economic Policy Institute has called for spending an additional $120 billion over the next three years to put more than a million unemployed Americans back to work, fixing and enhancing our communities. The national Apollo Alliance sketches out a blueprint to create jobs while also making America more energy efficient: upgrading our outdated electrical grid, weatherizing public buildings, supporting mass transit, and lending for and publicly funding weatherization for homes and commercial buildings (what President Obama and others have dubbed "Cash for Caulkers"). This kind of creative federal policy will help us emerge from a brutal recession with our infrastructure and people more equipped to meet the future.

» **Pass the federal Employee Free Choice Act (EFCA).** EFCA will ease the path toward better jobs in which workers have a voice by strengthening penalties when employers refuse to negotiate a first contract with their union or break other labor laws.

» **Reconstruct career ladders.** In many growing fields—health and education in particular—there are both high numbers of low-wage jobs, shortages of workers prepared for better-compensated positions, and limited rungs between the two. Career ladder programs are partnerships between employers, unions, educators and workers to help employees move up in a company or industry. Governor Strickland's manufacturing certificate proposal represents an important new initiative to document the skills that employees have gained so that those skills can be tapped to add to Ohio's productivity.

» **Build pathways into green jobs.** Invest in models that emphasize flexibility, so that young workers can easily move in and out of classroom-based training and employment as they enter the workforce. A range of existing opportunities, including bridge or pre-apprenticeships, apprenticeships, and community college programs, should be strengthened and expanded to provide entry points for all workers. The U.S. Department of Labor, Governor Strickland, and the AFL-CIO have all begun putting in place changes and ideas to make skills more portable—from manufacturing certificates, to portable interim credentials, to a multi-craft core curriculum.

Debt and Assets

To help young adults accumulate assets, we must first confront a new reality: for more and more young people, transitioning to adulthood means amassing debt at a young age. As students and their families assume a greater share of college costs, student loan debt has soared. And then there is credit card debt. Young adults are increasingly using credit cards to bridge the growing gap between earnings and living expenses. Two factors have exacerbated the debt burden for young people—private lenders commanding a larger share of the student loan market and deregulation of financial institutions, both of which increase the cost of credit to the consumer. Being mired in debt makes it difficult to save and build assets. Thanks to the Credit CARD (Credit Card Accountability, Responsibility and Disclosure) Act of 2009, new regulations that went into effect in February will better protect credit card holders. The provisions include restrictions on interest rate increases, limits on fees, and a requirement that minors without earnings have a parent cosign their credit card application.[48] What further steps could be taken to better protect consumers from deceptive and abusive lending practices and to reduce the high cost of credit?

» **Create a national Consumer Financial Protection Agency (CFPA).** A strong, independent CFPA would keep consumers safe from toxic financial products. It would help curb the lending industry excesses responsible for the dramatic rise in high-interest debt and, ultimately, for the financial meltdown and bailouts last fall. A CFPA would close the gap that currently leaves private lenders free to make abusive loans to students without supervision or limits; it would require more disclosure and fairer pricing.

» **Enforce the payday lending bill passed by the legislature and affirmed by Ohio voters**. After research revealed that payday lenders were more plentiful than McDonald's, Burger King and Wendy's restaurants combined and that they were charging 351 percent interest, Ohio legislators passed a law limiting the annual interest rate for short-term loans to 28 percent. Payday lenders tried to block the new law in a referendum, but voters reaffirmed their desire to see these loans reined in. Since then, lenders have reorganized under a different section of the law and continue their abusive practices. Ohio's commerce department should step up to enforce the law, and legislators should simultaneously pass Representative Matt Lundy's bill (HB 209), which would block the lenders' end run around the law passed last year.[49]

Raising a Family

Everyone wants families to start off on the right foot—for parents to be able to provide their children with what they need to thrive and succeed. But too often, young parents are hindered by earnings that don't cover the bills, inflexible workplaces, the inability to afford high-quality child care, and being uninsured or underinsured. In addition to financial stability, young families need access to affordable health insurance, paid sick time and family leave from work. To better support young families and improve children's success, policymakers should:

» **Provide universal child care.** Investing in high-quality, affordable child care and early learning opportunities helps children and families—and ultimately our nation—to succeed. Affordable care helps young parents make it financially, even though they are low on their career ladders. High-quality environments help infants and toddlers get the preparation they need to enter kindergarten ready to learn and excel. Good care also reduces costs down the road for remedial education, criminal justice and other expenses, which increase when children have been left unprepared. Finally, creating a cadre of preschool teachers funded by the public sector adds a stable, socially beneficial source of middle-class jobs while tapping into the talents of adults who want to work with children and enrich our future.

» **Support and expand national health insurance reform.** The Health Care and Education Affordability Act of 2010 will expand coverage to millions of Americans previously lacking health insurance. By providing affordable new insurance to millions of people, this landmark legislation will help ensure that young people aren't swamped by health costs as they pursue higher education and employment and start their own families. While the legislation expands coverage to tens of millions of previously uninsured Americans, there is more work to be done to create a truly universal, affordable healthcare system. Further reforms to control costs and cover the remaining uninsured Americans should be enacted to accomplish this goal.

We'd like to offer one final policy recommendation for Ohio: r**aise adequate revenue through a progressive, well-balanced state tax system.** Tax changes made in 2005 and implemented by both parties have drastically reduced the revenue available to the state of Ohio to meet the needs of people of all ages. Policy makers implemented across-the-board income tax cuts and replaced two major business taxes with a system designed to bring in much less, which then failed to generate even that lower forecast. The corporate tax slashing is costing Ohio about $1.6 billion a year. Now the Republican candidate for governor is proposing elimination of the state income tax, which currently brings in more than 45 percent of tax revenue in Ohio's General Revenue Fund. Not only should Ohio reject this problematic proposal, but policymakers should reverse the previous income tax cuts and adjust the corporate tax system to bring in the level of revenue that it previously did. We cannot invest in Ohio's young people and our future middle class without adequate resources.

The Federal Agenda: Future Middle Class	The Ohio Agenda: Future Middle Class
Recession Relief	
• Provide fiscal relief to the states	• Lobby for federal fiscal relief and spend it wisely
Education	
• Enact components of SAFRA not included in the Healthcare and Education Affordability Act	• Hold college and community college tuition steady • Increase need-based financial aid • Increase state investments in the higher education system • Support innovative programs that help working students complete their credentials
Employment and Earnings	
• Create a national public jobs program • Pass the Employee Free Choice Act	• Reconstruct career ladders • Build pathways into green jobs and union jobs
Debt and Assets	
• Create a Consumer Financial Protection Agency	• Enforce the payday lending law
Raising a Family	
• Provide universal child care • Support and expand national health insurance	• Preserve the state income tax • Reverse previous income tax cuts • Re-adjust corporate taxes to create more revenue

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