AN EQUAL SAY AND AN EQUAL CHANCE FOR ALL

**Testimony of Catherine Ruetschlin**
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**Before the State of Wisconsin Universities and Technical Colleges Committee**
**February 5, 2014**

Good morning, my name is Catherine Ruetschlin and I am a policy analyst at Dēmos, a non-partisan public policy organization working for an America where we all have an equal say in our democracy and an equal chance in our economy. Access to an affordable higher education is central to the work of Dēmos because, despite its growing expense, a college degree remains a young person's best bet for raising her standard of living and securing a place in the middle class. I thank the Wisconsin Senate Universities and Technical Colleges Committee for this opportunity to present testimony on the effects of student debt on our economic wellbeing, and the Higher Ed, Lower Debt Act.

Student debt has skyrocketed over the past decade, quadrupling from just $240 billion in 2003 to more than $1 trillion today.[1] In Wisconsin, where a year of tuition at a 4-year, public institution amounts to 16 percent of the median household income, most college graduates have to borrow to afford their degrees.[2] We have, as a nation, effectively tied the opportunity for achievement and economic stability for all but the most affluent among us to a burden of debt. As a result, students struggle to complete their educations in the face of financial barriers, households carry a debt load that diverts spending from the consumer economy and weakens their financial futures, and the diversion of $1 trillion of investment and spending undermines the health of the economy overall.

Our work at Dēmos to quantify the cost of tying opportunity to debt appears in the paper At What Cost? How Student Debt Reduces Lifetime Wealth. Using data from the Federal Reserve Board's Survey of Consumer Finances, we found that our current debt-for-diploma model of higher education funding leads to substantial losses associated with student debt both at the household level and economy-wide.

Our study looked at a household with two college graduates carrying the average student debt - $26,600 per graduate or $53,200 for the household.[3] That estimate is actually lower than the average debt in Wisconsin, where graduates today leave college owing $28,102 to student loans.[4] Using the Survey of Consumer Finances data, we project a model of household debt and assets, comparing the household carrying student debt with a comparable household that has no student debt. Based on existing data for household spending and investment, we find that

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the $53,200 in student debt of the average household with two college graduates comes at an expense of $208,000 in lost wealth over a lifetime.

The losses are a result of households' inability to make critical investments in the future. The debt payment for student loans forces a family to reduce their combined yearly retirement savings and liquid savings; they have less money available for the down payment on a house, and thus make greater total interest payments toward their mortgage through its maturity. With the benefits of saving and investing early in life compounded over years, the gap between a family with student debt and one with no student debt grows throughout their working lives, culminating in a substantial penalty for the household with student debt by the time they are ready to retire at age 65.

Lifetime wealth losses of approximately 4 times the value of the graduates' loans illustrate a best-case-scenario for earners saving and repaying debts under ideal conditions: incomes grow each year, retirement savings accumulate steady returns, and all debt payments are made on time. Yet the households repaying student debt lose ground almost immediately at the onset of their working lives.

For low-income and minority borrowers, the lifetime cost of student loans will likely be even greater. The latest data available shows that bachelor's degree recipients from lower income families are both more likely to take out student debt and likely to have larger debt amounts. In 2008, 75 percent of bachelor's degree recipients from families with incomes of less than $60,000 graduated with some student loan debt, compared to just 48% of students whose families earned $100,000 or more, and 14% of graduates from lower-income families had more than $30,500 in debt, compared to just 9% of students from families who earned $100,000 or more. Racial disparities also disadvantage African American households and contribute to the widening racial wealth gap. For the class of 2008, 80 percent of African American graduates left school with debt, compared to 67 percent of Latinos, 65 percent of whites, and 54 percent of Asian Americans. African Americans also graduated with higher levels of debt, leaving with an average student loan debt nearly $4,000 higher than the average graduate.

The household wealth loss associated with high student debt burdens translates into lost economic activity for the economy overall, as households curtail spending and cede accumulation in order to meet their debt obligations. Generalizing from our finding that the typical household faces lifetime wealth depletion four times the size of their loan amount suggests that the $1 trillion owed by our students translates to a $4 trillion cost for the American economy overall.



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This analysis of the broad economic implications of soaring student debt is born out in separate releases from the Consumer Financial Protection Bureau and from the Federal Reserve Bank of New York. A 2013 study by the Federal Reserve Bank of New York reveals that student debt has depressed both housing and auto loan markets, as young adults eschew other forms of consumer debt and postpone the kind of personal investments that used to mark transition to adulthood.[5] After reviewing an extensive cross-section of student loan borrower experiences, the Consumer Financial Protection Bureau determined that, in addition to undermining retirement security and homeownership, student debt obligations can discourage entrepreneurship and small business formation, as the need for stability undermines risk-taking and innovation, as well as the ability to invest capital, market products, and hire employees.[6] In Wisconsin, where indebted college graduates pay an average of $350 to student loan payments per month, these foregone investments can amount to hundreds of millions of dollars each year.

The research from Dēmos illustrates the damaging impact of student debt on lifetime assets, but the financial impact is not limited to only those who currently have student loans. The drag on purchasing power and saving that accompanies student debt slows economic activity for the entire economy. There is an urgent need for action to reduce the burden of existing student debt and prevent future debt from piling up even higher. The Higher Ed, Lower Debt Act is a critical step in addressing the adverse effects associated with the growth in student borrowing to finance higher education, reducing financial barriers to students, increasing budget flexibility for indebted households, and supporting a robust and growing economy for all of Wisconsin.

Thank you for your time and attention. I am happy to answer any questions.

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[1] Federal Reserve, "Quarterly Report on Household Debt and Credit," 2013.
[2] John Quinterno and Viany Orozco, "The Great Cost Shift," Dēmos, April 3, 2012, http://www.demos.org/publication/great-cost-shift-how-higher-education-cuts-undermine-future-middle-class, and projectonstudentdebt.org, state-by-state data for Wisconsin, http://projectonstudentdebt.org/state_by_state-view2013.php?area=WI.
[3] Robert Hiltonsmith, "At What Cost, How Student Debt Reduces Lifetime Wealth," Demos, http://www.demos.org/what-cost-how-student-debt-reduces-lifetime-wealth.
[4] Projectonstudentdebt.org, state-by-state data for Wisconsin, http://projectonstudentdebt.org/state_by_state-view2013.php?area=WI.
[5] Meta Brown and Sydnee Caldwell, "Young Student Loan Borrowers Retreat from Housing and Auto Markets," April 17, 2013, http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html.
[6] Consumer Financial Protection Board, "Student Loan Affordability, Analysis of Public Input on Impact and Solutions," May 8, 2013, http://files.consumerfinance.gov/f/201305_cfpb_rfi-report_student-loans.pdf.



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