Dēmos
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ECONOMIC STATE OF YOUNG AMERICA

Tamara
DRAUT

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.

The Economic Opportunity Program addresses the economic insecurity and inequality that characterize American society today. The program offers fresh analysis and bold policy ideas to provide new opportunities for low-income individuals, young adults and financially-strapped families to achieve economic security.

Dēmos was founded in 2000.

Miles S. Rapoport, President
Tamara Draut, Director, Economic Opportunity Program

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Tamara Draut is the Director of the Economic Opportunity Program at Dēmos, where she has authored numerous reports and conducted groundbreaking research on the economic concerns of young people, the state of the middle class and, in particular, on the growth of household debt in America. Tamara's work on debt has been covered extensively by dozens of newspapers, including *The New York Times*, *Washington Post*, *Chicago Tribune*, *Wall Street Journal* and *USA Today*. Tamara is a frequent television commentator and has appeared on the Today Show, ABC World News Tonight, CNN's Lou Dobbs Tonight and Fox News.

Tamara Draut is also the author of *Strapped: Why America's 20-and 30-Somethings Can't Get Ahead*
(Doubleday, 2006 - www.strappedthebook.com)

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ECONOMIC STATE OF YOUNG AMERICA

Tamara Draut

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INTRODUCTION

Today's 20-somethings are likely to be the first generation to not be better off than their parents. Evidence of their declining economic opportunity and security abound, from widespread debt to lower earnings in today's labor market for all but those with advanced degrees. Young people are the most likely to be uninsured of any age group; not because they think they're invincible, but because our nation's employer-based system was designed during a different era, for a different generation.

As this generation makes their way to adulthood, the levers of opportunity and pillars of economic security that once fueled and defined America's middle class have weakened or become antiquated.

The social contract that emerged after World War II represented a grand bargain between government, business and workers that ushered in unprecedented prosperity. From the GI Bill to the mortgage interest tax deduction to employer-sponsored health care, America created a comprehensive set of policies to propel upward mobility and created sustainable economic security.

The world has changed dramatically since the 1970s, with technology and globalization vastly altering the nature of work. Global competition has put downward pressure on American wages and the new jobs created in the service economy pay less than the manufacturing jobs they replaced. An emphasis on short-term profits has created pressures for businesses to slash costs and trim employee benefits. As each decade has unfolded since the 1970s, these trends have made getting into the middle-class and staying there more difficult for each successive generation. Today's 20-somethings have the unfortunate luck to be coming of age at the very culmination of these changes. They are suffering the consequences of our failure to modernize the social contract and adapt to changing economic and social realities. Today, our workforce development and higher education strategies are unsophisticated. Our family policies are woefully inadequate. And the safety net is antiquated.

This data book is designed to provide a comprehensive portrait of today's 20-somethings, and where possible, compare their economic status to that of the previous generation when they were just starting out. The book is organized into five key areas: jobs and income, debt and savings, college access and attainment, housing and raising a family. We also provide an initial blueprint for policy change. The work of modernizing our social contract will not happen without a major national commitment to the endeavor. For our part, Demos will be working to elevate these issues and educate policymakers. Most importantly, we will engage young people in the fight to revitalize the American ideal of upward mobility and economic security, for generations to come.

JOBS AND INCOME

The typical earnings of full-time workers age 25 to 34 are lower today than they were a generation ago, except among women with college degrees. Among young workers without college degrees, the incomes of young women have remained relatively flat, while the incomes of young men have declined considerably. Young males with no education beyond high school are earning 29 percent less than they did in 1975, with non-college educated young African-American men experiencing the steepest drop in incomes and the greatest decline in their labor force participation.[1]

The paycheck decline experienced by this new generation of young workers can partly be explained by the disappearance of manufacturing jobs which offered good wages for workers without college degrees, and the proliferation of low-wage service sector jobs in their place, with no public policy investments for professionalizing those jobs or the presence of unions to provide workers with collective bargaining power. Unions, which helped facilitate upward mobility, particularly for those outside the professional ranks, have a largely diminished presence for this generation, from 26 percent of the private sector workforce in 1974 to just under 8 percent in 2004.

As a result of changes in job quality, young workers are more likely to hold jobs that offer few fringe benefits, such as health insurance and pensions. Today, one out of three young adults—a full 18.2 million 18-to 34-year-olds—do not have health insurance, making them the age group with the largest percentage uninsured.[2]

In addition to working in jobs without benefits, moving up the wage or career ladder in the new economy is more difficult than it was a generation ago. The well-paying middle-management jobs that characterized the workforce up to the late 1970s have been eviscerated. Corporate downsizing in the 1980s and 1990s slashed positions in the middle of the wage distribution, and today outsourcing threatens to take millions more. Future job growth is projected to be concentrated in lower-wage sectors of the economy, with service-providing industries comprising more than three-quarters of all jobs in 2016, with some occupational exceptions such as registered nurses.[3] Between 2006 and 2016, the top five occupations adding the most jobs, in order of size, will be: registered nurses, retail sales persons, customer service representatives, food preparers and office clerks.

Falling Behind: Incomes of Young People

- In 2006, typical incomes for white young adults were 25 percent higher than African Americans and 30 percent higher than Latinos. Asian-American young people had the highest annual incomes—11 percent higher than whites, 33 percent higher than African Americans, and 38 percent higher than Latinos (Table 1B).
- Typical earnings for young men have declined over the course of a generation, falling 19 percent between 1975 and 2005. Typical earnings for young women have increased by nearly 4 percent over the same period (Table 1A).

Table 1A: Median Annual Earnings, 25-34 Year Olds (2004 dollars)

Men	
1975	**2005**
$43,416	$35,100
Women	
1975	**2005**
$29,184	$30,300

Source: U.S. Census Bureau, Current Population Survey, March and Annual Social and Economic Supplement, 1975 - 2006

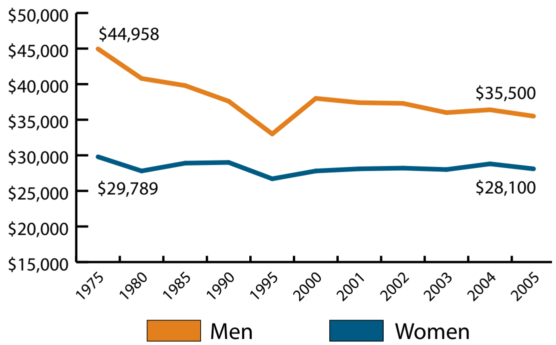
Table 1B: Median Annual Income for 25-34 Year Olds, 2006

Latino	$22,200
African American	$23,836
White	$31,548
Asian	$35,653

Note: Latino refers to Hispanic, non-white; African American refers to African American alone; and White refers to White alone, non-Hispanic

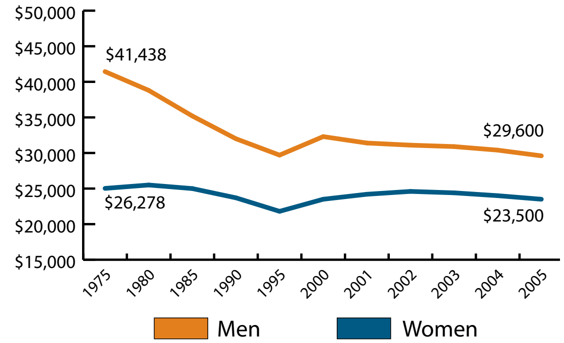
Source: U.S. Census Bureau, Current Population Survey, 2007 Annual Social and Economic Supplement

Graph 1.2: Median Annual Earnings, Workers with Some College, 1975-2005 (2004 dollars)



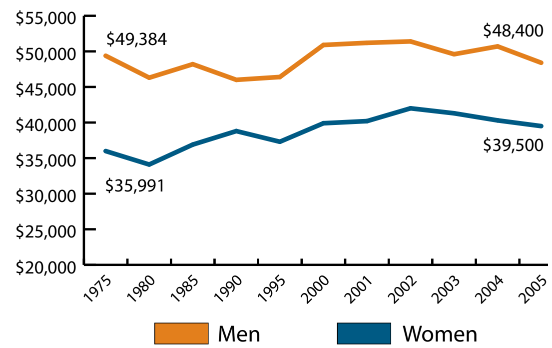
Source: U.S. Census Bureau, Current Population Survey, March and Annual Social and Economic Supplement, 1975 - 2006

Graph 1.1: Median Annual Earnings, Workers with High School Diploma, 1975-2005 (2004 Dollars)



Source: U.S. Census Bureau, Current Population Survey, March and Annual Social and Economic Supplement, 1975 - 2006

Graph1.3: Median Annual Earnings, Workers with Bachelor's Degree or Higher, 1975-2005 (2004 dollars)



- Aggregate trends mask significant changes in the incomes of young workers by gender and level of education. Young men with less than a high school education experienced the largest generational decline, with median earnings 34 percent lower than in 1975 (Table 1C).
- The second largest decline in earnings occurred among young men who had no further education beyond a high school diploma—dropping 29 percent between 1975 and 2005 (Graph 1.1). Median earnings for young men with some college declined by 21 percent during the same period (Graph 1.2).
- Among young women, median earnings rose only for those with a bachelor's degree or higher, increasing nearly 10 percent between 1975 and 2005 (Table 1C).
- Young women without bachelor's degrees have experienced less dramatic declines in their earning power compared to their male counterparts over the course of a generation. Earnings declined by 13 percent for women with less than a high school diploma and 10 percent for those without education beyond high school (Table 1C).

Table 1C: Median Annual Earnings, by Gender and Education, Workers Age 25-34, 1975-2005 (2004 Dollars)

	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	% change 1975-2005	% change 1995-2000	% change 2001-2005
Males														
All	43,416	40,600	39,100	36,700	34,200	37,800	37,600	37,300	36,500	36,300	35,100	-19.1%	+10.50%	-6.6
Less than high school	35,753	30,700	27,500	25,200	24,100	23,200	23,800	24,000	23,100	23,600	23,500	-34.2%	-3.7%	-1.2%
High school diploma or equivalent	41,438	38,800	35,200	32,000	29,700	32,300	31,400	31,100	30,900	30,400	29,600	-28.5%	+8.8	-5.7%
Some college	44,958	40,800	39,800	37,600	33,000	38,000	37,400	37,300	36,000	36,400	35,500	-21.0%	+15.2	-5.1%
Bachelor's degree or higher	49,384	46,300	48,200	46,000	46,400	50,900	51,200	51,400	49,600	50,700	48,400	-1.9%	+9.7	-5.5%
Females														
All	29,184	27,600	29,100	28,900	27,500	30,100	31,200	31,600	31,500	31,000	30,300	+3.8%	+9.5%	-2.9%
Less than high school	20,439	19,900	19,600	18,200	17,100	18,500	17,900	18,000	19,800	18,700	17,800	-12.9%	+8.2%	-.5%
High school diploma or equivalent	26,278	25,500	25,000	23,700	21,800	23,500	24,200	24,600	24,400	24,000	23,500	-10.6%	+7.8%	-2.9%
Some college	29,789	27,800	28,900	29,000	26,700	27,800	28,100	28,200	28,000	28,800	28,100	-5.7%	+4.1%	0.0%
Bachelor's degree or higher	35,991	34,100	36,900	38,800	37,300	39,900	40,200	42,000	41,300	40,300	39,500	+9.8%	+7.0%	-1.7%

Source: U.S. Census Bureau, Current Population Survey, March and Annual Social and Economic Supplement, 1975 - 2006.

» Incomes rose among young workers of all educational levels between 1995 and 2000, due to tight labor markets and strong economic growth. Wage growth was particularly impressive for young men with some college, whose earnings rose 15 percent. Despite strong gains during this period, by 2000, median earnings for young workers were still below their 1975 level for all but those with bachelor's degrees or higher (Table 1C).

» After rising between 1995 and 2000, median earnings for young workers fell across all educational levels between 2001 and 2005 with the exception of young women with some college, whose earnings were unchanged (Table 1C).

Poverty: Wide Gaps Appear Early in Adulthood

» Poverty among young people age 18 to 24 is higher than the national average, with nearly 18 percent living below the official poverty line. The poverty rate among 25 to 34-year-olds mirrors the national rate (Table 2A).

» Poverty rates among young adults of different racial groups mirror the trends among these groups in the population overall—with large disparities in the poverty rate between whites and people of color (Table 2A). The poverty rate of young African Americans age 25 to 34 is more than double that of white young adults, 23 percent to 8.5 percent respectively. The poverty rate among young Latinos falls in the middle at 18 percent (Table 2A).

Table 2A: Percent of Young People Living in Poverty, by Race, 2006

	White	African American	Latino (any race)	Asian	All Races
Total Population	8.2%	24.3%	20.6%	10.3%	12.3%
18 to 24 Year Olds	14.6%	27.5%	21.0%	16.6%	17.8%
25 to 34 Year Olds	8.5%	23.1%	18.0%	8.7%	12.3%

Source: U.S. Census Bureau, Current Population Survey, 2007 Annual Social and Economic Supplement.

Young and Jobless:
High Rates of Unemployment Among Young People of Color

- Young African-American men have the highest rate of unemployment among young people and the lowest percentage of individuals participating in the workforce (Table 3A). The decline of manufacturing jobs, the loss of employment in central cities, as well as persistent discrimination and high levels of incarceration, are all contributing factors to this employment gap.[4]
- The unemployment rate among African-American young people—both men and women—is more than double that of whites, and nearly double that of the young population overall (Table 3A).
- Between 1979 and 2000, the labor participation rate among non-college-educated young men declined for all racial groups, though African-American men experienced the steepest declines (data not shown). Non-college-educated young women of all races experienced overall increases in their labor participation, mostly due to growth during the 1990s, with young women of color experiencing the most significant gains.[5]
- In general, young women have lower levels of employment than men, a reflection of continued differences in labor participation among women and men with children.

Table3A: Employment Rate of Young People, 2007

	Men		Women	
(unemployment rate)	20-24 yrs old	25-34 yrs old	20-24 yrs old	25-34 yrs old
All races	71.7 (8.9)	87.9 (4.7)	65.0 (7.3)	71.0 (4.6)
White	74.8 (7.6)	89.5 (4.1)	67.1 (6.2)	71.6 (3.9)
African American	59.1 (16.9)	78.2 (9.1)	56.8 (13.6)	71.6 (8.1)
Latino	79.1 (7.4)	89.9 (4.5)	57.6 (8.5)	61.0 (5.6)
Asian	55.3 (6.9)	86.8 (2.8)	57.5 (4.2)	64.2 (3.7)

Source: Bureau of Labor Statistics, http://www.bls.gov/cps/cpsaat3.pdf.

- The incarceration rate for young adults age 20 to 24 in the adult prison system nearly doubled in the last decade, from 652 to 1,173 per 100,000. [6]
- Incarceration rates have risen dramatically among young people of color, who make up a disproportionate percentage of incarcerated young people. Radical changes in drug and sentencing laws, along with a decline in employment opportunities in central cities, have contributed to this problem.
- One in nine (11.7 percent) African American males age 25 to 29 was in prison or jail in 2006 as were one in 26 (3.9 percent) Latino males and one in 59 (1.7 percent) white males in the same age group (data not shown).[7]
- Over 1.1 million young men (age 18 to 34) were incarcerated in 2006—comprising 56 percent of all incarcerated men. Whites made up 31 percent of the young male incarcerated population, African Americans, 42 percent, and Latinos, 24 percent (Table 3B).

Table 3B: Number of Incarcerated Young Males (Age 18-34), 2006

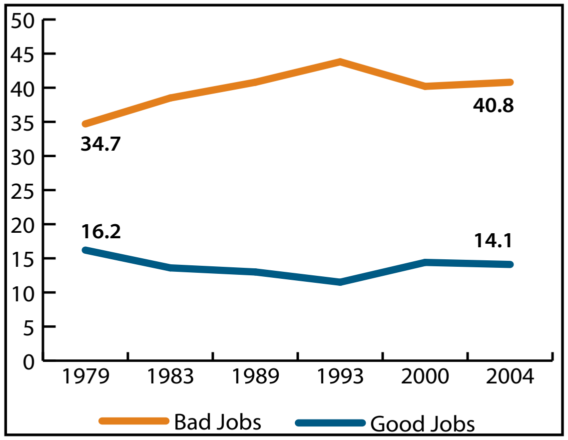
Number of Incarcerated Males	1,133,800
Percent White	31%
Percent African American	42%
Percent Latino	24%

Source: Bureau of Justice Statistics, Prison and Jail Inmates at Mid-Year 2006. Data includes inmates in state or federal prisons and local jails as of June 30, 2006.

Job Quality Declines for Young Workers

- Based on research by the Center for Economic and Policy Research, compared to a generation ago, the share of "good jobs" has declined for all but the oldest workers, despite gains during the mid 1990s (Table 4A).
- The percentage of young workers in "bad jobs" has increased since 1979, growing from 34.7 percent to 40.8 percent by 2004—the largest increase in workers with bad jobs of any age group (Graph 4.1).
- The likelihood of being in a good job increases with the worker's level of education, and that connection is even stronger today than a generation ago. For example, 22.5 percent of workers with a high school degree were in a good job in 1979, compared to 15.8 percent in 2004 (Data not shown).[8]

Graph 4.1: Share of Good and Bad Jobs for Young Workers, 1979-2004



Source: John Schmitt, "How Good is the Economy at Creating Good Jobs," Center for Economic and Policy Research, Table 2, October 2005.

Defining Good and Bad Jobs

A Good Job:

- Pays More Thank $16 per hour (or $32,000 annually)
- Offers employer-provided health insurance
- Offers any type of pension, including defined-contribution plans (such as a 401k)

A Bad Job:

- Pays less than $16 per hour
- Offers no health insurance or pension plan

Table 4A: Share of Good Jobs and Bad Jobs, 1979-2004

	18-34 yrs old	35-54 yrs old	55-64 yrs old
Good Jobs			
1979	16.2	34.1	33.1
1983	13.6	32.6	32.9
1989	13.0	32.5	30.7
1993	11.5	30.5	27.9
2000	14.4	31.3	33.0
2004	14.1	31.3	33.0
Bad Jobs			
1979	34.7	20.3	20.9
1983	38.5	20.4	20.5
1989	40.8	20.9	21.8
1993	43.8	21.1	21.1
2000	40.2	18.0	17.2
2004	40.8	19.0	15.8

Source: John Schmitt, "How Good is the Economy at Creating Good Jobs," Center for Economic and Policy Research, October 2005.

Uncovered: Young Adults More Likely to Be Uninsured and Pension-less

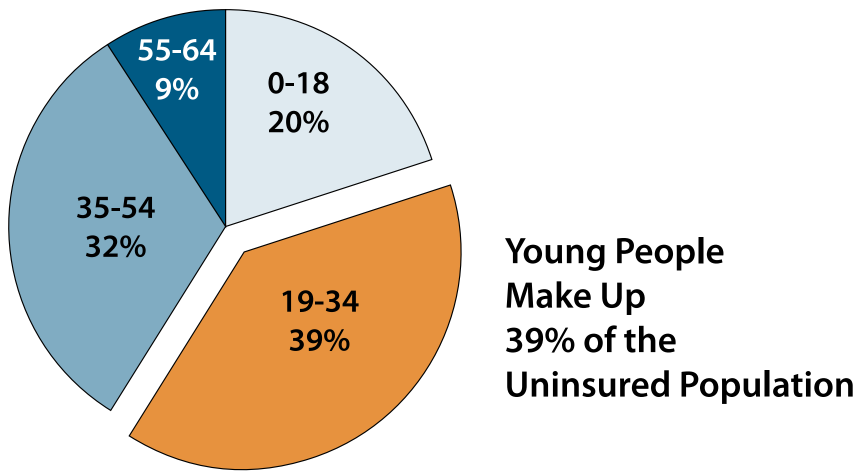
» In 2006, 31 percent young adults age 19 to 24 and 27 percent of young adults age 25 to 34 were uninsured—a rate higher than any other age group.[9]

» Over 18 million young people age 18 to 34 did not have health insurance in 2006.[10]

» Latinos and African Americans are both at greater risk of being uninsured than white young adults: 36 percent of African Americans and 52 percent of Latinos age 19 to 29 are uninsured, compared with 24 percent of whites in that age range (data not shown).[11]

» Young workers, particularly those without college degrees, are much less likely to have health insurance from their employer compared to a generation ago (data not shown). In 1979, 63.3 percent of recent high school graduates had employer-provided health insurance, compared to 33.7 percent in 2004. Among recent college graduates, the percentage dropped from 77.7 percent to 63.5 percent over the same time period.[12]

Graph 5.1: Distribution of Non-Elderly Uninsured Population, by Age, 2006



Source: The Uninsured: A Primer, Kaiser Family Foundation, October 2007.

Table 5A: Health Insurance Coverage of Young Adults, 2006

	Private		Public		Uninsured
	Employer	Individual	Medicaid	Other	
All Adults under 65	63.2%	5.9%	7.8%	2.8%	20.4%
Age 19-24	45.6	11.1	10.8	1.3	31.2
Age 25-34	58.9	4.3	8.5	1.2	27.1
Age 35-44	67.9	4.6	7.0	1.6	18.9
Age 45-54	69.9	5.0	6.7	3.0	15.3
Age 55-64	66.3	6.7	7.4	6.8	12.7

Source: Kaiser Commission on Medicaid and the Uninsured, "Health Insurance Coverage in America," 2007, Table 1.

» Young men 18 to 34 are more likely to be uninsured than young women of the same age, 33 percent to 25 percent—due to women's eligibility for public health coverage through Medicaid (data not shown). Twelve percent of young adult women receive health insurance through Medicaid, compared to 7 percent of men.[13]

» Pension coverage, which was always less common among non-college educated young workers, has fallen from 36 percent in 1979 to 18.8 percent in 2004. College-educated young workers are still more likely to have coverage, though the percentage has declined to less than half, from 54.6 percent in 1979 to 49.3 percent in 2004 (data not shown).[14]

DEBT AND SAVINGS

Debt has become a generation-defining characteristic for today's young adults. The problem often begins with student loan debt, which affects both community college and 4-year college students. Two-thirds of students borrow money to pay for college, up from just under half in 1993, graduating college with an average student debt of $19,200.[15] As tuitions have outpaced family income and federal student loan limits, more young people are taking out private student loans to fill the gap. In 2004-2005, students borrowed about $14 billion in private loans, a 734 percent increase from a decade earlier.[16] Private loans typically carry higher interest rates and less flexible payment options than federal loans. One survey found the average variable interest rate on private student loans was 11.5 percent, and as high as 19 percent (federal student loans have fixed rates of 6.8 percent).[17]

While education debt is often considered "good debt," growing student loan burdens are impacting young people's ability to save and build wealth. Young adult households without student loan debt have more home equity and higher financial assets than young households with student loan debt.[18]

The debt problem doesn't end with student loans. Today's 20- and 30-somethings are relying more on credit cards to cover basic living expenses, particularly during those first few years in the workplace. As starting salaries have failed to keep pace with rising student loan bills, housing costs or health care costs, the credit line serves as a life line for many young people.

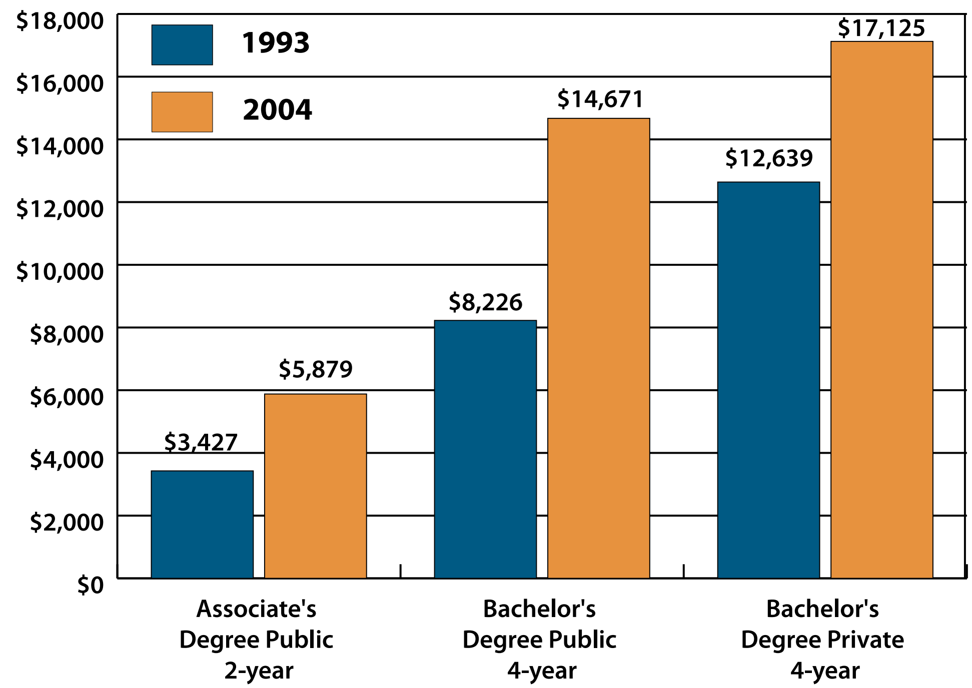
The ensuing debt is exacerbated by a host of credit card industry practices such as universal default and penalty interest rates, which make it exceedingly difficult to pay down the debt in a timely manner. Rising debt also threatens the ability of young adults to manage the costs of day-to-day living, build assets and save for retirement, and support a family.

New forms of high-cost credit, such as payday loans, have proliferated to fill the expanding ranks of the cash-strapped. Payday lenders, which now outnumber fast-food outlets, are concentrated in urban communities and military bases. Congress recently passed a law prohibiting interest rates higher than 36 percent on payday loans made to military members, but everyone else is still legally being charged fees equivalent to anywhere from 300 to 500 percent APR.

Student Loan Debt

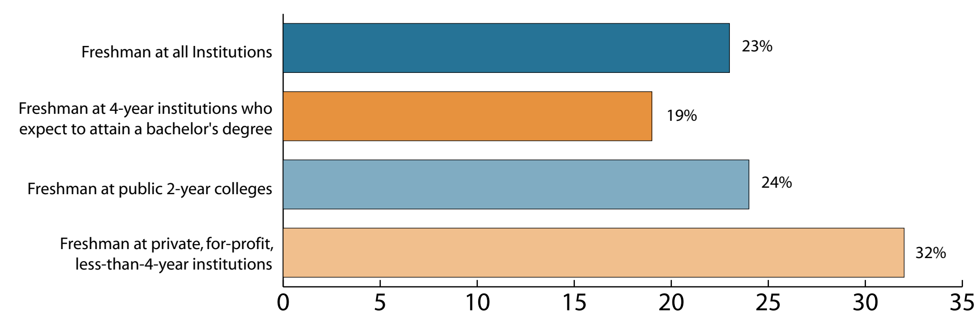
- In 2004, the median student loan debt for graduates of 4-year public colleges and universities was $14,671 (mean $17,250), a 78 percent increase from a decade earlier (Graph 6.1).
- In 1993, less than half of all 4-year graduates had student loans; today, nearly two-thirds graduate with debt (data not shown).[19]
- One out of four borrowers who graduated in 2004 had more than $25,000 in student loans (data not shown).[20]
- Low-income students, particularly those who receive Pell grants, are much more likely to have student debt than other students. Among Pell grant recipients who earned their degree in 2004, 88.5 percent had student loans, compared to just over half (51.7 percent) of non-Pell recipients.[21] (data not shown). Pell grant recipients also carried 12 percent higher debt, carrying on average $20,735 in student loan debt versus $18,420 for non-Pell recipients.
- A high percentage of students who borrow for college—more than one out of five (23%)—drop out of college, leaving them with debt to repay but no degree (Graph 6.2).
- The median debt of borrowers who drop out is $10,000, with a median monthly debt payment of $125 (data not shown).

Graph 6.1: Median Student Loan Debt, 1993-2004 (2004 dollars)



Source: American Council on Education, "Federal Student Loan Debt: 1993 to 2004," Issue Brief, June 2005.

Graph 6.2 Percentage of Borrowers Who Drop Out, by Type of Institution Attended



Note: Percentages are for first-time freshmen who first enrolled in 1995-96, and their status in 2001.

Source: Lawrence Gladieux and Laura Perna, "Borrowers Who Drop Out: A Neglected Aspect of the College Student Loan Trend," The National Center for Public Policy and Higher Education

Table 6A: Average Student Loan Debt, Class of 2006

State	Average Debt (% with Debt)
New Mexico	$28,770 (81%)
District of Columbia	$27,757 (49%)
New Hampshire	$24,800 (71%)
Alaska	$24,656 (52%)
Vermont	$23,839 (66%)
Connecticut	$23,469 (58%)
Minnesota	$23,375 (72%)
Iowa	$22,926 (74%)
Maine	$22,877 (72%)
Pennsylvania	$22,776 (69%)
Rhode Island	$21,577 (52%)
Indiana	$21,179 (58%)
Michigan	$21,169 (60%)
South Dakota	$21,103 (84%)
New York	$21,092 (66%)
Idaho	$20,696 (68%)
North Dakota	$20,644 (66%)
Ohio	$20,525 (65%)
Alabama	$20,389 (56%)
West Virginia	$20,360 (61%)
New Jersey	$20,142 (65%)
South Carolina	$19,697 (57%)
Oregon	$19,667 67%)
Tennessee	$19,549 (42%)
Florida	$19,543 (51%)
Wisconsin	$19,536 (64%)
Arkansas	$19,256 (56%)
Nebraska	$19,198 (64%)
Massachusetts	$19,018 (60%)
Missouri	$18,635 (66%)
Colorado	$18,565 (48%)
Texas	$18,334 (56%)
Mississippi	$18,162 (62%)
Washington	$18,040 (59%)
Virginia	$18,039 (56%)
Arizona	$18,026 (48%)
Louisiana	$18,012 (52%)
North Carolina	$17,760 (55%)
Georgia	$17,753 (56%)
Oklahoma	$17,680 (55%)
Illinois	$17,650 (52%)
Kansas	$17,617 (57%)
Delaware	$17,589 (48%)
California	$17,270 (47%)
Montana	$17,209 (72%)
Maryland	$16,872 (53%)
Wyoming	$16,855 (44%
Kentucky	$15,406 (63%)
Utah	$12,807 (31%)
Hawaii	$11,758 (29%)
Nevada	n/a (n/a)
National	$19,646 (58%)

Source: Project on Student Debt, "Student Debt and the Class of 2006."

- Student debt levels vary greatly by state, from $28,770 for students graduating from institutions in New Mexico to a low of $11,758 for graduates in Hawaii (Table 6A).[22]
- One contributor to higher levels of student debt in a state may be that those states have higher average tuition. For example, the average tuition in New England is $17,367, compared to $9,983 nationally—a product of the fact that there are more private schools in New England than there are nationally.[23]
- The percentage of students who graduate with debt also varies depending on where the student attended college, from a high of 84 percent of students graduating with debt in South Dakota to a low of 29 percent in Hawaii (Table 6A).
- In 2006, the national student loan debt was $19,646, with 58 percent of students graduating with loan debt (Table 6A).

Table 6B: Student Loan Debt by Race

	% Who Borrowed 1992—1993	% Who Borrowed 1999—2000	Average Debt 1992—1993	Average Debt 1999—2000
American Indian	66.2	78.4	$13,300	$16,800
Asian	42.7	60.5	$13,500	$17,900
African American	64.1	79.8	$11,400	$19,800
White	47.8	63.7	$12,300	$19,700
Latino	60.7	70.6	$9,500	$17,000

Source: U.S. Department of Education, National Center for Education Statistics, 1993/94 and 2000/01 Baccalaureate and Beyond Longitudinal Studies (B&B:93/94 and B&B:2000/01).

» African-American, Latino and American-Indian students are more likely to borrow to pay for college than are white students, while Asian students are the least likely to take out student loans (Table 6B). African-American and white college students borrow the most, while American-Indian students borrow the least of all racial and ethnic groups.

» Eighty percent of African-American students borrow to pay for college, compared to 71 percent of Latino students and 63 percent of white students (Table 6B).

Student Loans: Impact on Savings and Wealth

» Young households with education debt have less financial assets and lower home equity than young households that do not have student loans. Households age 18 to 34 carrying education-related debt had median financial assets that were 28 percent lower than those households without such debt (Table 7A).

» Only 6 percent of young adult households with education debt were economically buoyant compared to 22 percent of those without education debt (Table 7A).

» Young homeowners that did not have education loans had greater home equity—38 percent of median home value compared to 20 percent among young homeowners with education debt (Table 7A).

Table 7A: Financial Assets and Home Equity, by Presence of Education Debt, 2004

	Median Financial Assets	Percent of Households that are Economically Buoyant*	Median Home Equity as a Percent of Home Value
Households Age 18-34 without Education Debt	$5,720	22%	38%
Households Age 18-34 with Education Debt	$4,100	6%	20%

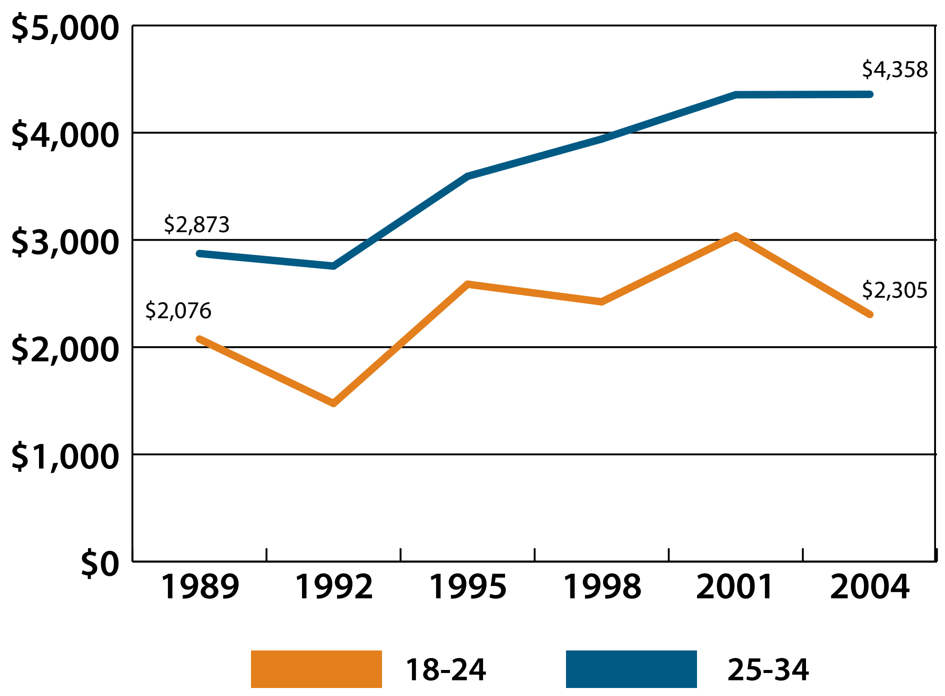
*Economic Buoyancy is defined as having enough net financial assets to sustain a household for at least three months without income.

Source: Dēmos' calculations of the 2004 Survey of Consumer Finances

Credit Card Debt

- In 2004, young adults between the ages of 18 and 24 had 11 percent higher credit card debt than those who were that age in 1989. Today, the average debt of the youngest adults is $2,305 (Graph 8.1).
- Young adults between the ages of 25 and 34 are also deeper in debt. In 2004, 25-to 34-year-olds averaged $4,358 in credit card debt—47 percent higher than it was for Baby Boomers who were in that age group in 1989 (Graph 8.1).
- In 2004 (the latest national data available), just under half (45 percent) of 25-to 34-year-olds had credit card debt, down from 48 percent in 1989 (Table 8A).

Graph 8.1: Average Credit Card Debt Among Young Households with Credit Card Debt, 1989-2004 (2004 dollars)



Source: Dēmos' analysis of Survey of Consumer Finance data, 1989, 1992, 1995, 1998, 2001, and 2004.

Table 8A: Percent of Young Households with Credit Cards and Debt, 1989-2004

	1989	1992	1995	1998	2001	2004	Percent change 1989 - 2004	Percent Change 2001 - 2004
Percent of Households with credit cards								
18-24 yr olds	42.9%	50.7%	53.7%	49.4%	56.3%	57.1%	33.0%	1.4%
25-34 yr olds	66.6%	70.9%	72.8%	67.1%	70.8%	65.6%	-1.4%	-7.3%
Percent of cardholders with credit card debt								
18-24 yr olds	70.1%	78.7%	76.7%	78.3%	72.4%	66.3%	-5.5%	-8.4%
25-34 yr olds	72.5%	70.5%	72.0%	75.5%	69.2%	68.5%	-5.4%	-0.9%
Percent of income devoted to debt payments (debt-to-income ratio) of households with credit card debt								
18-24 yr olds	13%	14%	15%	14%	14%	22%	69.2%	57.1%
25-34 yr olds	16%	16%	17%	20%	20%	25%	56.2%	25.0%

Source: Dēmos' analysis of Survey of Consumer Finance data, 1989, 1992, 1995, 1998, 2001, and 2004.

» Among young people with credit card debt, the overall percentage of income devoted to all debt payments rose substantially for this generation: from 13 to 22 percent for 18-to 24-year olds and from 16 to 25 percent for 25-to 34-year-olds. That is, in 2004, 25-to 34-year-olds with credit card debt spent on average 25 cents of every dollar of income to pay all their debt obligations—more than double what Baby Boomers of the same age spent on debt payments in 1989 (Table 8A).

» Additional survey research conducted by Dēmos of low- to middle-income households found that, in 2005, the average indebted adult under age 34 had just over $8,000 in credit card debt (data not shown). According to these households, the most common reasons for their credit card debt were car repairs, loss of a job, and home repairs. Forty-five percent of those under age 34 reported using credit cards in the last year to pay for basic living expenses, such as rent, mortgage payments, groceries and utilities.

Overall Debt Burden

- The median debt-to-income ratio of households with any type of debt increased by 32 percent between 1989 and 2004 (Table 9A).
- The median debt burden of young households age 25 to 34 rose by 38 percent between 1989 and 2004 (Table 9A)
- The youngest households' (18 to 24 years old) median debt burden increased 148 percent between 1989 and 2004 (Table 9A).
- The typical 25-to 34-year-old household with debt spent 21 percent of its income on debt payments in 2004, up from 15 percent in 1989 (Table 9A).

Table 9A: Median Debt-to-Income Ratio of Debtors, 1989-2004

	1989	1992	1995	1998	2001	2004
Total	14.2%	14.6%	15.5%	17.5%	16.0%	18.7%
under 25	7.5%	14.4%	13.5%	15.6%	12.4%	18.6%
25 to 34	15.4%	13.1%	16.1%	18.4%	18.8%	21.3%
35 to 44	16.0%	18.1%	17.4%	18.9%	17.5%	20.9%
45 to 54	15.9%	15.2%	16.3%	17.9%	16.2%	18.9%
55 to 64	10.2%	15.0%	14.9%	16.6%	13.7%	15.8%
65 +	7.5%	7.0%	7.2%	10.5%	10.7%	13.8%

Source: Dēmos' calculations of Survey of Consumer Finances data: 1989, 1992, 1995, 1998, 2001, 2004

Spending more than 40 percent of income on debt payments is considered a sign of distress, or debt hardship. While younger households' debt-to-income ratios are only slightly higher than their middle-aged counterparts, the percentage of younger households in debt hardship is higher than all other age groups (Table 9B).

» The youngest households, those age 18 to 24, had the highest percentage of households in debt hardship, 18.8 percent in 2004—an increase of more than 6 percentage points since 1989 (Table 9B).

» Between 1989 and 2004, debt hardship among young people age 25 to 34 increased from 12.9 percent to 15 percent (Table 9B)

» Compared to 25-to 34-year-olds in 1989, today's young households have similar levels of savings, with a median of $1,500 in 2004 (latest national data available). While savings grew for this age group between 1998 and 2001, they fell back to their 1989 levels between 2001 and 2004 (Table 9C).

» Savings for the youngest households, those age 18 to 24, have grown by 37 percent since 1989, to $700 (Table 9C).

Table 9B: Debt Hardship of Debtors, 1989-2004
(Debtors with Debt to Income Ratios Greater than 40%)

	1989	1992	1995	1998	2001	2004
Total	10.7	11.6	12.0	14.1	12.6	13.8
under 25	12.3	18.3	18.7	20.4	12.6	18.8
25 to 34	12.9	9.7	10.1	13.3	13.7	15.0
35 to 44	10.0	13.6	10.6	12.8	11.6	13.8
45 to 54	10.7	9.8	13.3	13.0	10.5	13.9
55 to 64	9.5	13.8	16.3	14.8	14.6	11.5
65 +	7.6	8.8	9.3	17.0	14.6	12.6

Source: Dēmos' calculations of Survey of Consumer Finances data: 1989, 1992, 1995, 1998, 2001, 2004.

Table 9C: Median Liquid Assets for Young Adults (2004 dollars)

	1989	1992	1995	1998	2001	2004
18-24 yrs old	$440	$265	$369	$591	$639	$700
25-34 yrs old	$1,466	$1,318	$1,231	$1,391	$1,704	$1,500

Source: Dēmos' calculations of Survey of Consumer Financesdata: 1989, 1992, 1995, 1998, 2001, 2004.

COLLEGE ACCESS AND ATTAINMENT

Over the last generation, the importance of obtaining some type of post-secondary credential has grown. As earnings have dropped considerably for workers with no further education beyond high school, a college degree has become all but essential for entering the middle class. Yet, rising tuition prices, coupled with anemic levels of financial aid, are leaving too many in this generation without the credentials they both desire and need to succeed.

In the 2001-02 school year, over 400,000 college-qualified high school graduates from low- and moderate-income families (those with incomes below $50,000) did not enroll in a 4-year college, and 168,000 did not enroll in any college at all. Unless immediate steps are taken to reverse this trend, over the decade 4.4 million qualified students will not attend a 4-year college and 2 million will not attend any college at all.[24] The wide disparities in access to higher education run counter to our values of fairness, equal opportunity and upward mobility. In 1965, with the creation of the Higher Education Act, our nation set out to ensure that any student who wanted to pursue a college education should have the opportunity, regardless of family income. While we've never fully delivered on that promise, we are now losing ground.

Disparities in access to college have widened by race. While enrollments among all racial groups have increased over the last three decades, the rate of growth has been greater for white students. Much of the gap in access—along class and race—is attributable to high levels of unmet financial need. According to an analysis of data from the Department of Education, low- and middle-income households face high levels of unmeet need.[25] Unmet need equals the cost of attending college, including tuition and living expenses, minus expected family contribution and financial aid. According to the report, the average public college student from a family with an annual household income of $62,240 or less will have an average of $3,600 in annual unmet need. Public college students from families with an annual household income of $34,288 or less will experience an average annual unmet need of $4,689. Students who face unmet need compensate by working longer hours and/or by taking out private student loans.

As a result of unmet need, the highest achieving students from poor backgrounds attend college at the same rate as the lowest achieving students from wealthy backgrounds.[26] Or to put it more coarsely: the least bright wealthy kids attend college at the same rate as the smartest poor kids.

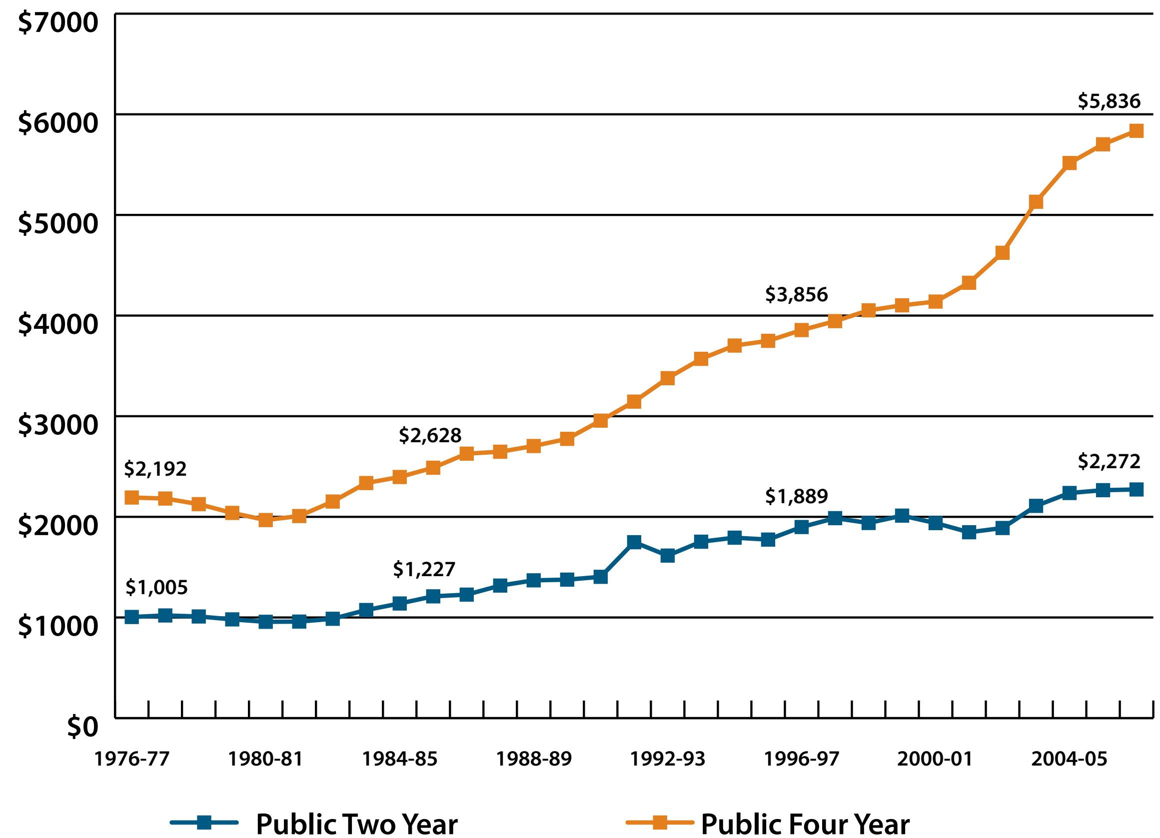
Academic preparation is also critical to ensuring that lower income students enroll and complete college degrees. But the growing disparity between enrollments and degree completion is occurring during a time when academic preparation for college has steadily risen among low-income students. More than half of high school seniors in households with incomes below $36,000 have completed college preparatory courses—up from just over one-third in 1987.[27] Nonetheless, racial and class disparities continue to result in fewer low-income and students of color who are prepared for higher education.

The current access problem will be further strained as the largest generation since the Baby Boomers begins to age out of high school. The traditional college-age population is projected to grow by 16 percent between 2000 and 2015.[28] This generation will be more ethnically diverse, better prepared for college, and more likely to have financial need for college. By 2015, 80 percent of the college-age population will be non-white, and almost 50 percent will be Latino. Left unchecked, the disparities in educational opportunity could severely threaten our social cohesion, dividing the country into a well-educated, white minority and an under-educated non-white majority.

Trends in College Costs

- Since 1980, tuition at public 4-year universities has more than doubled, after adjusting for inflation. In 2006, the average tuition at a public 4-year college was $5,836, up from $3,856 in 1996 and $2,628 in 1986 (2006 dollars). Add in room and board charges for 4-year colleges, and the total cost of attending in 2006 was $12,796, up from $9,258 in 1996 and $7,528 in 1986.[29]
- In the last five years alone, tuition at public four-year colleges has increased 35 percent, higher than any other five-year increase from 1976 to the present.[30]
- Tuition at community colleges has also risen, though not as steeply. In 2006, the cost of tuition at 2-year colleges was $2,272, up from $1,899 in 1996 and $1,227 in 1986.

Graph 10.1: Average Tuition and Fee Charges, 1976-2006 (2006 Dollars)



Source: College Board, Trends in College Pricing, 2006.

Trends in College Enrollment

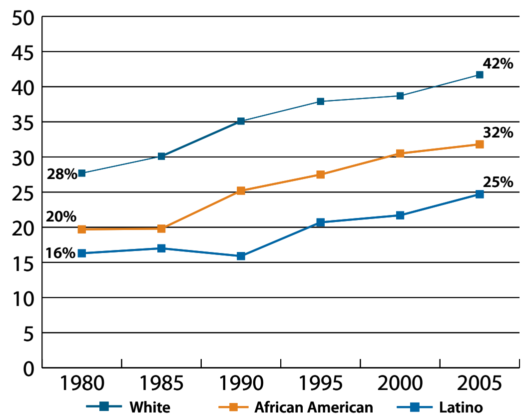
- The percentage of high school graduates who enroll in college in the fall immediately after high school increased between 1975 and 2005 from 51 to 69 percent (Table 11A).
- Gaps in enrollment by income have persisted over three decades, though the difference has narrowed slightly. In 1975, 65 percent of high-income and 31 percent of low-income high school graduates enrolled in college—a gap of 34 percentage points. In 2005, 81 percent of high-income and 54 percent of low-income students enrolled—a gap of 27 percentage points.
- The gap between college enrollment among white, African-American and Latino students has widened over the last 20 years.
- In 2004, the enrollment gap between white and African-American students was 10 percentage points, up from only 8 percentage points in 1980 (Graph 11.1).
- The enrollment gap between white and Latino students was 17 percentage points in 2004, up from an 11 percentage point gap in 1980 (Graph 11.1).

Table 11A: Percent of High School Graduates Who Enroll in College in The Fall, 1975-2005

	Total	Low Income (bottom 20%)	Middle Income (middle 60%)	High Income (top 20%)
1975	50.7	31.2	46.2	64.5
1980	49.3	32.5	42.5	65.2
1985	57.7	40.2	50.6	74.6
1990	60.1	46.7	54.4	76.6
1995	61.9	34.2	56.0	83.5
2000	63.3	49.7	59.5	76.9
2005	68.6	53.5	65.1	81.2

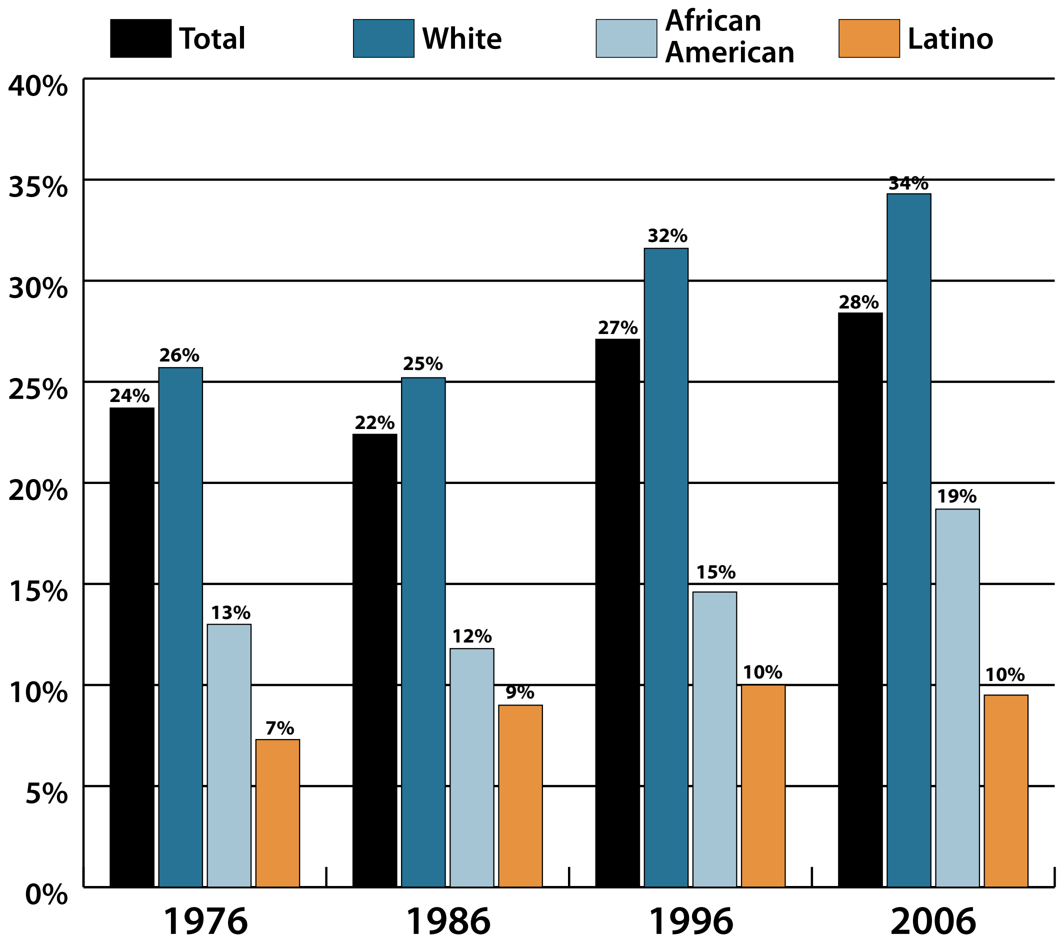
Source: U.S. Department of Education, National Center for Education Statistics. (2007). The Condition of Education 2007 , Indicator 25: Immediate Transition to College, Table 25-1. Washington, DC: U.S. Government Printing Office.

Graph 11.1: Percent of 18-24 Year Olds Enrolled in College, 1980-2004



Source: U.S. Department of Education, National Center for Education Statistics. (2007). The Condition of Education 2007 , Indicator 25: Immediate Transition to College, Table 25-1. Washington, DC: U.S. Government Printing Office.

Graph 12.1: Percentage of Young People (aged 25-29) with Bachelor's Degree or Higher



Source: U.S. Department of Education, National Center for Education Statistics. (2007). The Condition of Education 2007, Indicator 27: Educational Attainment, Table 27-3. Washington, DC: U.S. Government Printing Office.

Trends in College Completion and Degree Attainment

- The percent of 25-to 29-year-olds who completed at least some college education increased from 34 to 58 percent between 1971 and 2006 (data not shown). The rate increased during the 1970s, leveled off during the 1980s, and increased in the early and mid-1990s. Since the mid-1990s, the rate has leveled off again.[31]
- For each racial/ethnic group, the percentage completing at least some college was higher among this generation in 2006 than among Baby Boomers in 1976. In 2006, 66 percent of white 25- to 29-year-olds had completed at least some college, compared with 50 percent of their African-American peers and 32 percent of their Latino peers.[32]
- The rate for completing a bachelor's degree or higher was roughly half the rate for completing at least some college during most years. Between 1976 and 2006, the percentage of 25-to 29-year-olds who had completed a bachelor's degree or higher increased from 24 to 28 percent. Over the last decade, the rate of college attainment has remained relatively flat, between 27 and 29 percent (Graph 12.1).
- The percentage of 25- to 29-year-olds with a bachelor's degree or higher increased for all three racial/ethnic groups over the last three decades. Due to faster grwoth among white students, the gaps between whites and their African-American and Latino peers widened during this period (Graph 12.1).

Table 12A: Percentage of Young People (age 25-29) with a Bachelor's Degree or Higher

	Total		White		African American		Latino	
	Male	Female	Male	Female	Male	Female	Male	Female
1976	27.5	20.1	29.8	21.6	12.0	13.9	10.3	n/a
1981	23.1	19.6	25.5	21.7	12.1	11.1	8.6	6.5
1986	22.9	21.9	25.8	24.5	10.3	13.1	8.9	9.1
1991	23.0	23.4	26.5	26.9	11.5	10.5	8.1	10.4
1996	26.1	28.2	30.9	32.3	12.2	16.6	10.2	9.8
2001	26.2	31.1	29.7	36.3	17.9	17.8	9.1	13.3
2006	25.3	31.6	31.4	37.2	15.2	21.7	6.9	12.8

U.S. Department of Education, National Center for Education Statistics. (2007). The Condition of Education 2007 , Indicator 27: Educational Attainment, Table 27-3. Washington, DC: U.S. Government Printing Office.

- In a generational reversal, young women (age 25 to 29) today have higher rates of educational attainment than men. From 1976 to 2006, the percentage of young women with at least a bachelor's degree has climbed from 20 percent to 32 percent (Table 12A).
- In 2006, 32 percent of young women and 25 percent of young men had bachelor's degrees or higher. (Table 12A)
- Women's educational attainment began surpassing men's in 1991, and has remained higher every year, with accelerated gains in the mid- to late-1990s (Table 12A).
- Gaps among women by race persist, though the differences among women are not as wide as those among men (Table 12A).
- Young white women have the highest rates of college attainment at 37 percent, higher than the overall average of 28 percent (Table 12A).
- Degrees among young men have declined overall since 1976, from 27.5 percent to 25.3 percent. However, both young white and African-American men of this generation are better-educated, while Latino young men have lost ground (Table 12A).

HOUSING

Over the past decade, rents and home prices in major cities across the country have escalated rapidly. As young adults transition from college into the workforce, already owing nearly $20,000 in student loan debt, securing affordable housing in the current market can pose a significant challenge. Because our nation's largest cities contain the best prospects for high-paying jobs and professional career paths, young professionals still migrate to major metropolitan areas like New York, Chicago, San Francisco and Boston. The high cost of rent, however, often leaves them trapped in a prolonged rental cycle, unable to save enough money for a down payment on a home, or prompts them to become financially overextended by taking on large, risky home mortgages.

While young professionals gravitate toward the largest cities, young adults without college degrees are migrating away from them. Unable to afford the cost of housing in the cities where they grew up, many of these young adults are moving to lower-cost alternatives—cities like Atlanta, Dallas, Phoenix and Las Vegas. Our nation's largest and most diverse cities are become virtually unaffordable for many young people with, and most without, college degrees.

The rising cost of housing helps explain why, compared to a generation ago, higher percentages of young people are considered "housing burdened"—defined as spending more than 30 percent of pre-tax income on rent or a mortgage.

Despite rising home prices, homeownership increased substantially among young adults between 2000-2006, rising from 47 percent to 49 percent. Innovations in mortgage financing, such as no downpayment loans and the growth of subprime mortgages, were responsible for fueling the surge in homeownership among first-time buyers.[33] The rise in homeownership among young people, particularly those who became homeowners with little or no downpayment, may prove tenuous as home prices decline in previous red-hot housing markets, and adjustable rate mortgages begin to reset. Young homeowners who bought in these markets may find themselves holding a mortgage greater than the home's value—a scenario that leaves them without the option to refinance. In 2006, one estimate put the number of homeowners with mortgages exceeding the value of their property at 8.8 million.[34]

Living with Parents

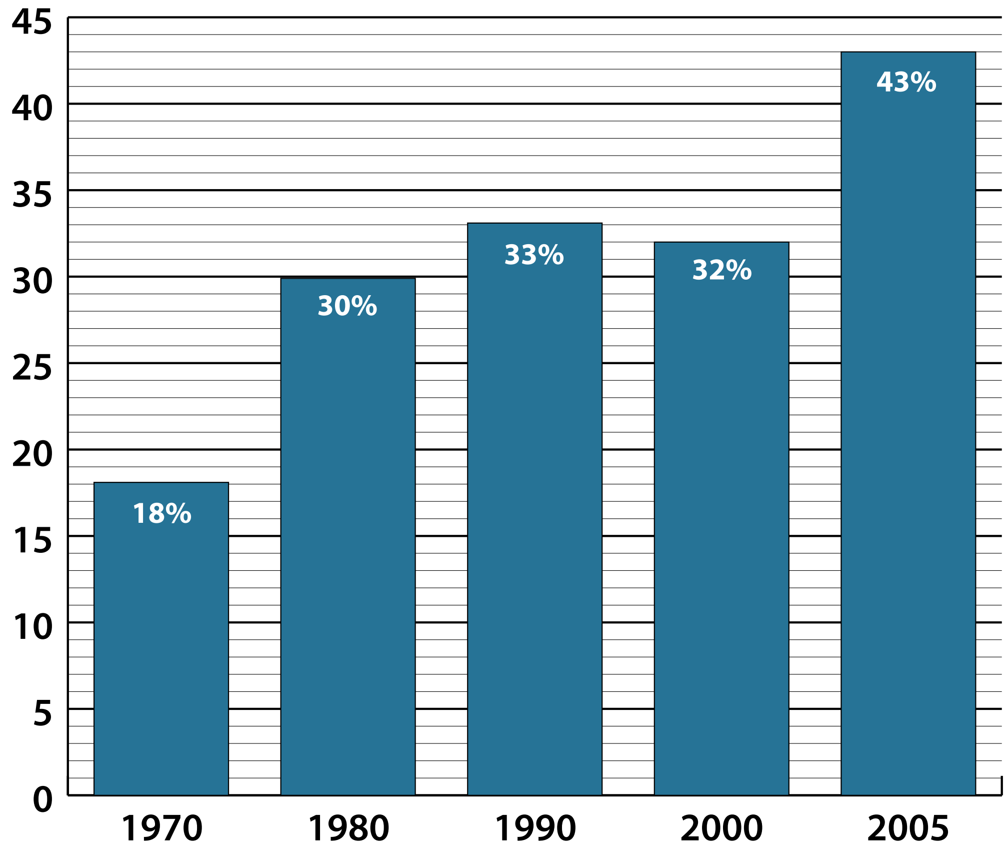
- The percentage of young adults who lived with their parents started rising in the 1980s and continued to steadily increase until 1995, when 15 percent of men and 9 percent of 25-to 34-year-olds were living with their parents. Since then, the rate has declined to 13.5 percent of young men and 8 percent of young women (Table 13A).
- Women are less likely to still be living at home, likely because they finish college earlier than men and are more likely to be married during their mid-to-late 20s.

Table 13A: Young Adults Living at their Parental Home, 1970-2005

	18-24 Year Olds		25-34 Year Olds	
	Male	Female	Male	Female
1970	54.3	41.3	9.5	6.6
1980	54.3	42.7	10.5	7.0
1985	59.7	47.8	13.3	8.0
1990	58.1	47.7	15.0	8.3
1995	58.4	46.7	15.4	8.5
2000	57.1	47.1	12.9	8.3
2005	53.0	46.0	13.5	8.1

Source: U.S. Census Bureau, Young Adults Living At Home, Table AD-1.

Graph 14.1: Percentage of Young Adults Age 25-34 Spending More than 30% of Pre-Tax Income on Rent



Source: U.S. Census Data, 1970-2000, Integrated Public Use of Microdata Series, and US Census Bureau, 2006 American Community Survey.

Rent Costs

- Over the last three decades, the cost of renting an apartment has absorbed a greater percentage of young people's income. In 1980, the average gross rent payment absorbed 22 percent of a 25-to 34 year-old's income; in 2006, it was 25 percent. The youngest adults experienced greater increases, rising from 26 percent in 1980 to 32 percent in 2006 (Table 14A).

Table 14A: Average Gross Rent as a Percentage of Pre-Tax Household Income

	1980	1990	2000	2006
18 -24 yrs old	26%	29%	27%	32%
25 -34 yrs old	22%	22%	20%	25%

**Gross rent includes amount of rent, plus the estimated average monthly cost of fuel and utilities*

Source: U.S. Census Data, 1980-2006, Integrated Public Use Microdata Series: Version 4.0.

- Compared to a generation ago, a higher percentage of young people are spending more than 30 percent of their income on rent (designated threshold of affordability). In 2005, 43 percent of 25-to 34-year-olds spent more than one-third of their pre-tax income on rent, up from 18 percent in 1970 (graph 14.1).
- The rising rental cost burden is a function of two trends: rising housing costs and declining incomes.

Homeownership

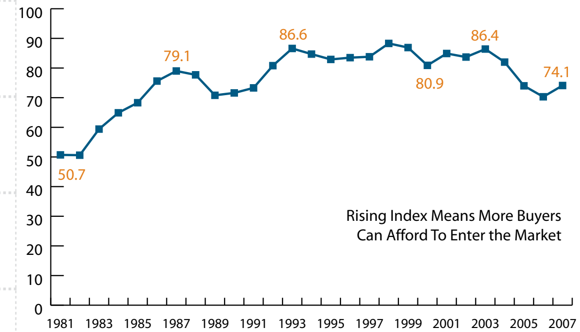
- Homeownership rates for young households age 25 to 34 began declining in the 1980s, falling from 48 percent in 1982 to 43 percent in 1992. As the market rebounded, the late 1990s witnessed the largest national gain in the home ownership rate since the 1950s, boosting the young adult home ownership rate to 47 percent. By 2006, 49 percent of those age 25 to 34 were home owners (Table 15A).
- As home prices have risen and median incomes for young households have fallen, homeownership has become less affordable for the typical first-time buyer (Graph 15.1).
- The housing affordability index, which equals 100 when a family earning the median income has enough income to qualify for a mortgage on a median-priced home, assuming a 20 percent down payment. Between 2000 and-2007, affordability declined steadily, dropping from 81 to 74.

Table 15A: Homeownership Rate, 1982-2006

	Less than 25 years	25 to 34 years old
1982	19.3%	48.0%
1983	18.8%	47.0%
1984	17.9%	46.9%
1985	17.2%	46.1%
1986	17.2%	45.5%
1987	16.0%	45.5%
1989	16.6%	44.9%
1990	15.7%	44.2%
1991	15.3%	43.4%
1992	14.9%	43.1%
1993	15.0%	43.7%
1995	15.9%	44.9%
1996	18.0%	44.9%
1997	17.7%	44.6%
1998	18.2%	45.7%
1999	19.9%	45.9%
2000	21.7%	47.1%
2002	23.0%	47.8%
2003	22.8%	49.0%
2004	25.2%	49.5%
2005	25.7%	49.2%
2006	24.8%	49.0%

Source: U.S. Census Bureau, Current Population Survey/ Housing Vacancy Survey.

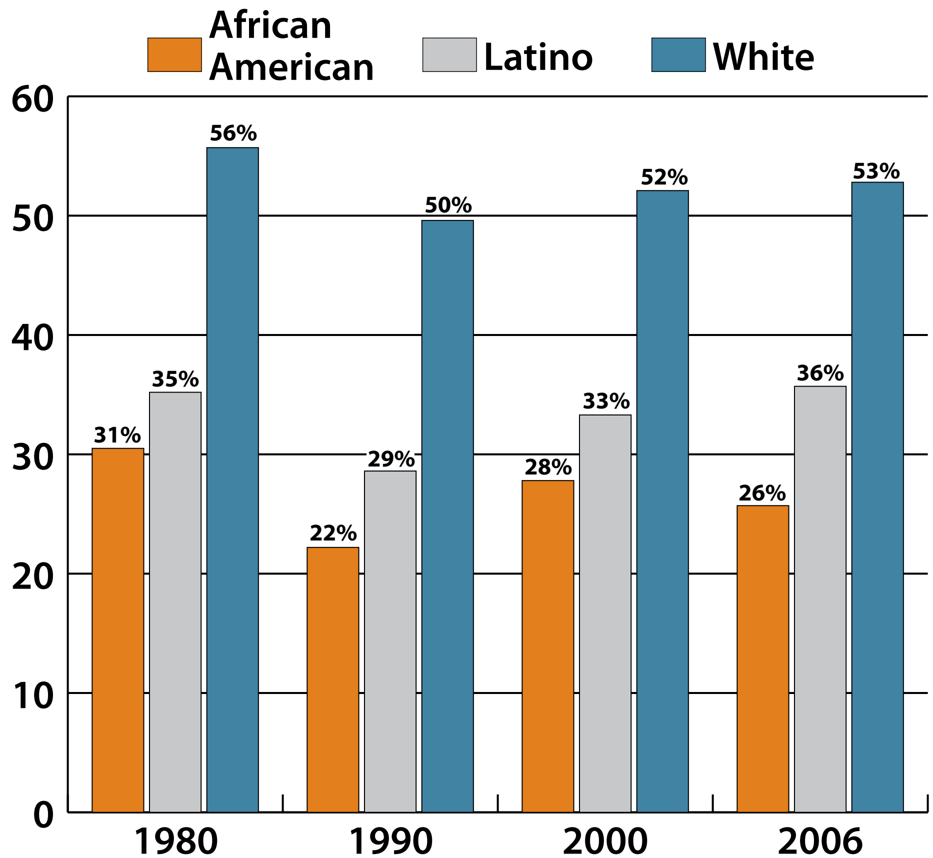
Graph 15.1 First-Time Housing Affordability Index



Note: Index = 100 when median family income qualifies for an 80 percent mortgage on a median-priced existing single-family home

Source: National Association of Realtors

Graph 15.2: Homeownership Rates by Race, 2006



Source: U.S. Census Data, 1980-2006, Integrated Public Use Microdata Series: Version 4.0.

- Wide gaps in homeownership by race have persisted over a generation. While 53 percent of whites age 25 to 34 owned a home, only 26 percent of African Americans and 36 percent of Latinos owned their home (Table 15B).
- Homeownership rates among young African Americans have declined since 1980, dropping from 31 to 26 percent (Table 15B).
- Since 1980, the gap in homeownership has narrowed between young Latinos and whites and widened between African Americans and whites (Graph 15.2).

Table 15B: Homeownership Rates by Race, 1980-2006

	1980	1990	2000	2006
White				
18-24	24.4	17.9	20.1	20.2
25-34	55.7	49.6	52.1	52.8
Af. Am				
18-24	11.6	7.5	10.5	7.8
25-34	30.5	22.2	27.8	25.7
Latino				
18-24	13.5	10.1	15.2	15.6
25-34	35.2	28.6	33.3	35.7

Source: U.S. Census Data, 1980-2006, Integrated Public Use Microdata Series: Version 4.0.

RAISING A FAMILY

Most parents with children under the age of six are in their late twenties or early thirties, making issues of family leave, child care, and work flexibility of core concern to young adults under the age of 34. Today the average age a woman has her first child is 25, up from 21 in 1970. And today, the average family is one in which both moms and dads with young children are in the labor force. In the late 1990s, 57 percent of all mothers returned to work within six months after their child was born; 65 percent returned by the end of the year, compared to 14 percent in the early 1960s who returned within six months and 17 percent by the end of the year.[35]

While having children has always been expensive, making the transition to parenthood poses a steeper financial challenge today. Unlike previous generations, today's young families are often still paying off student loan debt and juggling mortgages or rents that absorb a larger percentage of their income. The additional expenses of child care, and the drop in income many families experience during the initial months after the birth of a child, can create serious financial burdens for new parents.

While practically every nation except the United States offers some form of paid parental leave—providing an economic safety net that allows parents to bond with their child without fear of missing a house payment or sliding deeper into debt—the United States does very little to help defray the costs of child rearing. Forty-five percent of U.S. workers do not qualify for The Family and Medical Leave Act (FMLA), which requires employers with 50 or more employees to provide up to 12 weeks of unpaid leave to care for a newborn or adopted child. Among those who do qualify, many can't afford the lost pay associated with taking unpaid leave, and as a result, most parents don't take parental leave. Only 36 percent of women and 33 percent of men take parental leave after having a baby.[36]

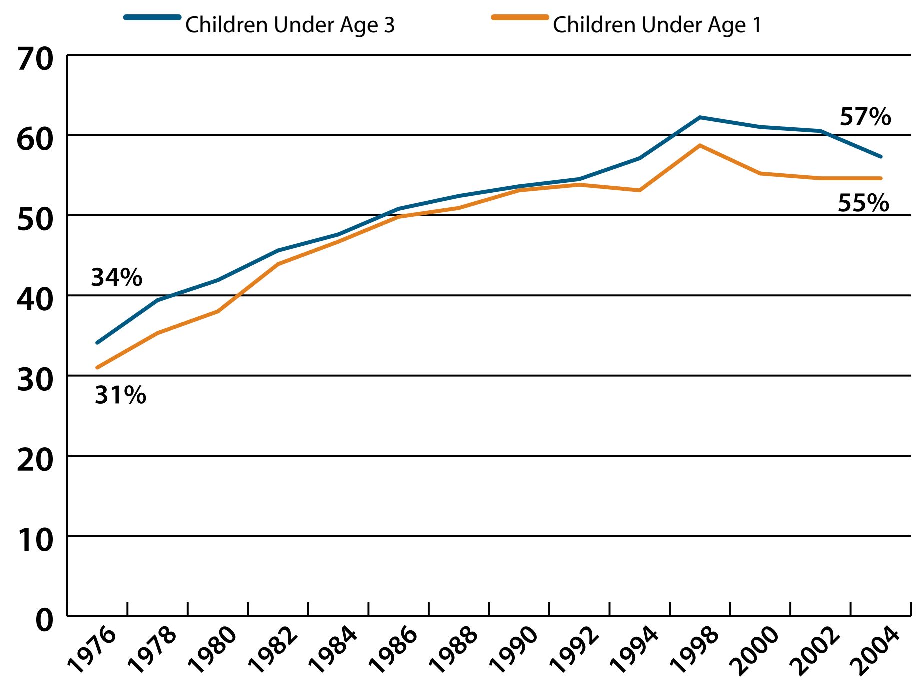
Child care is one of the biggest expenses in a young family's household budget, often second only to housing payments. Limited subsidies are available to help lower-income parents, mostly single women transitioning off welfare, pay for child care. The generosity of these benefits is determined by each state, but in general, waiting lists for a subsidized spot can be long and eligibility levels are too low for moderate- or middle-income families to qualify.

Parents pay for the largest portion of child-care costs, contributing about 60 percent; federal, state and local governments pay 39 percent; and businesses and foundations cover only 1 percent.[37] According to several studies, most child care in this country is of poor to mediocre quality.[38] The price of child care is rising faster than inflation, with average monthly fees for two children in care exceeding the median rent cost in nearly every state.[39]

Labor Force Participation of Parents

- More than half of women with a child under age one were in the labor force in 2004, up from 31 percent in 1976 (Graph 16.1).
- In 1975, only two out of every five mothers with a child under age six held a paid job. As of 2005, 62.6 percent of women with children under age six were in the labor force (data not shown), and 59 percent of mothers with children under age three were in the labor force.[40]
- The majority of women who work within one year after the birth of their first child return to the same employer (83 percent), and nearly eight out of 10 work the same number of hours as before their birth, while 20 percent work less hours (data not shown).[41]

Graph 16.1: Labor Force Participation of Mothers with Young Children, 1976-2004



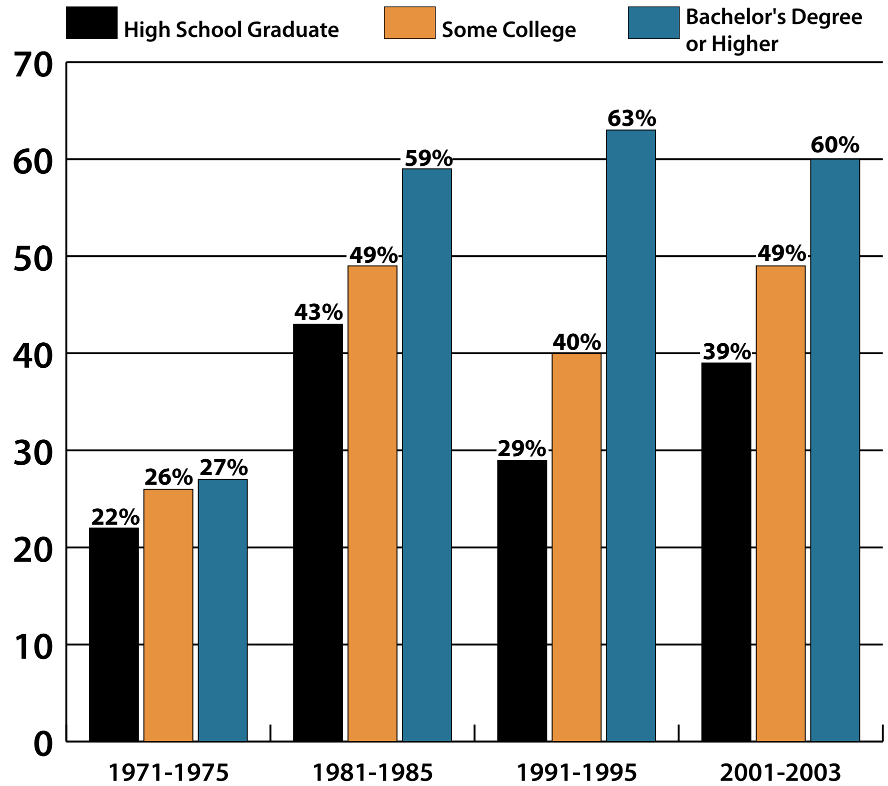
Source: U.S. Census Bureau, Current Population Survey, 1976-2004.

» During pregnancy and after their first birth, 39 percent of women received paid maternity leave, and 29 percent received unpaid maternity leave. The availability of paid leave differs by level of education, with 60 percent of women with a bachelor's degree or more using paid leave compared to 39 percent of women with only a high school diploma.[42]

» Compared to the previous generation, the percentage of women receiving paid leave has increased for women at all education levels.

» In addition to maternity leave, women also used paid and unpaid vacation and sick days during the period before and after their first birth, with one out three combining paid and unpaid leaves to cover time before and after their first birth.[35]

Graph 16.2: Percent of Women Who Received Paid Leave Before or After Their First Birth



Note: Paid leave includes all paid maternity, sick and vacation leave used before the birth and up to 12 weeks after the birth.

Source: Tallese D. Johnson, "Maternity Leave and Employment Patterns of First-Time Mothers: 1961-2003," Current Population Reports, U.S. Census Bureau, February 2008.

Table 17A: Primary Child Care Arrangements Of Children Under Age 5 with Employed Mothers, Spring 2005

	Relative Care			Non-Relative Care			
	Father	Grandparent	Other relative	Day care center	Family day care	Nursery/ preschool	Other non-relative (babysitter/ nanny)
TOTAL	**18.2**	**20.5**	**5.4**	**19.1**	**7.8**	**5.3**	**9.0**
AGE OF CHILD							
Less than 1 year	19.3	25.4	6.4	16.2	8.5	0.4	9.9
1-2 years	18.5	20.7	5.3	21.0	9.1	2.9	9.5
3-4 years	17.5	18.4	5.1	18.5	6.4	9.5	8.1
RACE OF MOTHER							
White alone	19.3	20.2	4.8	18.1	8.5	5.2	9.5
Non-Latino	20.4	18.4	3.6	19.9	9.6	5.9	9.1
African American alone	12.7	20.3	7.8	23.6	6.9	5.5	6.9
Asian alone	11.3	28.6	7.0	21.4	1.1	6.3	10.0
Latino (of any race)	15	27.7	9.7	11.7	4.0	2.3	10.7
EDUCATION LEVEL OF MOTHER							
Less than high school	23.1	16.8	11.1	10.4	3.2	-	9.3
High school graduate	17.4	27.2	7.8	16.0	4.6	3.1	9.1
Some college	18.6	23.0	5.3	19.2	8.4	5.3	7.8
Bachelor's degree or higher	17.2	13.7	2.5	23.1	10.5	8.0	10.1
WORK STATUS OF MOTHER							
Employed full-time	15.7	21.4	5.4	22.5	8.9	5.2	9.1
Employed part-time	25.1	21.2	6.4	11.9	6.5	4.8	8.7
Self-employed	16.8	10.5	1.9	13.1	3.3	7.7	8.7
FAMILY POVERTY LEVEL							
Below poverty level	21.1	20.9	7.1	17.1	4.4	1.3	7.9
At or above poverty level	17.8	20.6	5.1	19.6	8.5	6.0	9.0
100 - 199 percent of poverty level	21.2	21.7	8.7	16.5	4.0	2.9	6.5
200+ percent of poverty level	16.7	20.2	3.8	20.7	10.0	7.0	9.8

Source: U.S. Census Bureau, Who's Minding the Kids? Child Care Arrangements: Spring 2005, Table 2B.

Child Care: Type Used and Its Cost

» The primary type of child care used by employed mothers with children under age five varies by education, race and income. Among all employed mothers, paid care was the most common arrangement with 27 percent of children in some type of day care setting (19 percent formal day care center; 8 percent family-based day). The next most common child care arrangements were with a grandparent (20.5 percent) or father (18 percent) (Table 17A).

» Mothers with bachelor's degrees or higher were more likely to have their children in some type of day care setting, while mothers with less education were more likely to have their children in the care of a grandparent or other relative (Table 17A).

» Families with an employed mother and a child under age five paid on average $129 per week for child care—devoting 9 percent of the family's monthly income to child care (data not shown).[44]

» The cost burden for child care is much higher for families living in poverty, with 26 percent of family income devoted to child care payments (data not shown).[45]

Table 17B: 10 Least Affordable States for Pre-School Age Care in a Center

	Average Annual Price of Full-Time Preschool-Age Care	Child Care as a Percentage of Median Single Parent Family Income	Child Care as a Percentage of Median Two Parent Family Income	Rank (based on percentage of two-parent family income)
Oregon	$9,012	46.1%	14.3%	1
New York	$9,391	40.0%	12.1%	2
Minnesota	$9,204	34.7%	11.9%	3
Massachusetts	$10,668	41.8%	11.8%	4
Washington	$8,364	35.2%	11.6%	5
Montana	$6,108	34.7%	11.2%	6
District of Columbia	$10,920	48.6%	10.8%	7
North Carolina	$6,756	35.5%	10.6%	8
Maine	$6,725	33.6%	10.4%	9
California	$7,477	29.3%	10.4%	9

Source: National Associate of Child Care Resource & Referral Agencies, "Parents and the High Price of Child Care," 2007 Update.

- Child care costs vary widely by state, with full-time care for a toddler ranging from $3,794 to $10,920 and full-time care for an infant ranging from $4,388 to $14,647 per year (Table 17B).[46]
- In every region of the country, child care for two children at any age exceeds the median rent cost, and is as high or higher than the median monthly mortgage payment (data not shown).[47]
- In 30 states, the average annual price of full-time care for a pre-school age child is greater than the average cost of full-time tuition and fees at the state's public four-year colleges (data not shown).[48]

Table 17C: 10 Least Affordable States for Infant Care in a Center

	Average Annual Price of Full-Time Infant Care	Child Care as a Percentageof Median Single Parent Family Income	Child Care as a Percentage of Median Two Parent Family Income	Rank (based on percentage of two-parent family income)
Wisconsin	$11,855	50.7%	16.5%	1
Massachusetts	$14,647	57.4%	16.2%	2
Washington	$11,388	48.0%	15.8%	3
Pennsylvania	$11,200	50.3%	15.7%	4
Minnesota	$12,168	45.9%	15.7%	4
New York	$11,887	50.6%	15.3%	6
California	$10,745	42.1%	15.0%	7
District of Columbia	$14,560	64.7%	14.4%	8
Oregon	$8,988	45.9%	14.3%	9
Illinois	$10,198	43.4%	13.4%	10

Source: National Associate of Child Care Resource & Referral Agencies, "Parents and the High Price of Child Care," 2007 Update.

- As a percent of state median income for two-parent families, the average annual cost of child care for a pre-school age child ranged from a high in Oregon of 14.3 percent to a low of 6.6 percent in Louisiana.
- Single parents face particularly high cost burdens for child care: the average annual price of care for a pre-school age child ranges from 49 percent of the state median income for a single-parent in the District of Columbia to 20 percent in Utah.

POLICY RECOMMENDATIONS

A New Social Contract

As a new generation makes their way to adulthood, evidence abounds that the levers of opportunity and pillars of economic security that once fueled and defined America's middle class have been weakened or become antiquated.

The social contract that emerged after World War II represented a grand bargain between government, business and workers that ushered in unprecedented prosperity. The economy and public policy worked hand in hand to make a middle-class life possible for millions of young families. After World War II, educational attainment rose as the GI Bill and 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 legislation raised the minimum wage to a historic high in 1968 and public policy fueled the economy by ensuring a tight labor market, promoting full employment, and facilitating union organizing. 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. Under the postwar social contract, companies provided job stability, regular increases in pay, and social insurance protection. Workers reciprocated this loyalty through long job tenure and an investment in the quality of the goods and services they produced. While benefiting labor and business, the positive effects of this system were felt across sectors of American society and throughout the economy.

The world has changed dramatically since the 1970s, with technology and globalization vastly altering the nature of work. Global competition has put downward pressure on American wages and the new jobs created in the service economy pay less than the manufacturing jobs they replaced. An emphasis on short-term profits has created pressures for businesses to slash costs and trim employee benefits. As each decade has unfolded since the 1970s, these trends have made getting into the middle-class and staying there more difficult for each successive generation. While these forces certainly pose new challenges, the outcomes have also resulted from the failure to renew our public policy to ensure shared prosperity.

As evidence mounts that today's 20-somethings are likely to be the first generation to be less well-off than their parents, it is time to renew our social contract. The policies outlined below are intended to give a broad sense of the reforms needed to usher in a new era of middle-class expansion and economic opportunity.

Creating More Good Jobs

Today millions of young adults work in jobs that pay wages too low to cover basic living expenses or allow them to save for the future. This trend shows no signs of abating, but rather stands to worsen as much of the future job growth in America is predicted to be in the lower-level, lower-paying service sector. Public policy should work to improve the quality of jobs by investing in the green economy, expanding and professionalizing worker-training initiatives, and facilitating the ability for workers to unionize their workplace.

- **Green Collar Jobs:** Global warming is not only a crisis, but an opportunity to revolutionize our economy and create millions of new jobs in green industries. But experts predict a major skills shortage that may hamper this economic transformation. And without a major effort to train and hire young or unemployed workers from under-resourced communities, the green economy could easily recreate the inequalities of the old economy. Green-collar job training programs are partnerships between local or state governments, unions, community colleges and workforce development authorities. The partnerships help attract employers who will meet the green goals of a community, such as installing energy efficient technology or renewable sources on homes and businesses. The partnerships train and place young, unemployed, and hard-to-employ workers in high-pay, high-demand jobs—mostly without college degrees. Congress' Green Jobs Act of 2007 was a good start, providing $125 million in funding for green-collar jobs partnerships. States and localities can start green-collar job programs, as well. Successful programs exist or are beginning in communities including Oakland, Chicago, Los Angeles, Milwaukee, and Multnomah County, Oregon.

- **Career Ladders in Health and Education:** Among the largest growing occupations over the next 10 years will be jobs in health services like medical assistants, personal home and health care aides, as well as the higher-paying jobs in the field like registered nurses. The same job growth trends are happening in the teaching field. Over the next decade, there is robust growth projected in both the low-end—paraprofessionals, also known as teaching assistants or aides—and the high-end, K through 12 teaching positions. The fact that in two major occupational categories—teaching and the health professions—both low- and high-wage job growth is projected over the next decade signals an opportunity to design formal career ladders in these fields. Career ladder programs, usually in partnerships between employers, unions and educators such as community colleges, offer on-the-job training and time-off for certification to help workers move up at a company or in an industry. Successful programs exist in Wisconsin, Boston and Las Vegas.

» **Facilitate Worker's Rights to Unionize:** Because not all jobs are ripe for career ladders, such as those in the ever-growing food and retail industry, reforms are needed to remove barriers to unionization. The Employee Free Choice Act would mandate that employers recognize and authorize the formation of a union when a majority of employees have signed union cards.

» **Expand the Earned Income Tax Credit:** The EITC lifts millions of families out of poverty each year by supplementing their earnings. The EITC currently distributes $40.6 billion annually to about 22.5 million Americans. Currently, the EITC only provides a very small benefit to childless adults 7.65 percent of initial earnings compared to 34 percent for families with one child), and offers no benefits for childless workers under age 25. According to the Center for American Progress, there are over 3 million poor childless adults ages 18 to 24—1.6 million of them work, including 240,000 who work year-round. Expanding the EITC for childless adults, particularly young adults, would reduce their poverty and encourage labor force participation. The maximum EITC for child¬less workers should be increased to 20 percent of initial earnings, nearly triple its current level.

Making College More Affordable and Accessible

Between the years of 2000 and 2015, the college-age population is predicted to grow by 16 percent. This generation will be more ethnically diverse, better prepared for college, and more likely to need financial aid for college. By 2015, 43 percent of the college-age population will be non-white, and students from low-income families will represent an increasing proportion of high school students. We need to change our policies and provide opportunities for all students who want to attend higher education, not only the ones whose families can afford it.

» **The Contract for College:** The Contract for College would unify the existing three strands of federal financial aid—Pell grants, loans, and work-study—into one guaranteed financial aid package for students. Grants would make up the bulk of aid for students from low- and moderate-income families. The Contract will recognize the important value of reciprocity, so part of the Contract for every student will include some amount of student loan aid and/or work-study requirement. An important component in designing this program is to ensure that families have early knowledge of the financial resources available to their children to attend college. Using information collected by the IRS on tax returns, the Department of Education would send all households with students in the 7th grade and above a notice of their *Contract for College* that estimates their aid package using the average cost of attendance at public 4-year institutions.

» **Regulate Private Student Loans:** As college costs have outpaced federal loan limits, new and unregulated lenders have aggressively marketed private student loans. Private student loan debt has increased by about 27 percent a year since 2001, and the interest rates can reach over

20 percent APR. Private loans have none of the interest rate limits or consumer protections of federal loans, often lack clear disclosures, and are not dischargeable during bankruptcy. Congress should restrict the loans' rates and fees, improve disclosures and restore young borrowers' right to relief from private student loans in bankruptcy court, which was taken away in 2005.

Reducing Debt and Increasing Savings

While most young adults understand the need to save for the future, too few young people are able to do so and are actually moving in the opposite direction, toward long-term burdens of personal debt, often at very high interest rates. To contend with rising student loan debt, slow wage growth, prolonged unemployment and higher prices for housing, gasoline and other essentials, more people are financing their young adult years on credit.

» **Address Abusive and Deceptive Credit Card Practices:** Credit card companies now routinely triple or quadruple the interest rate for a tardy payment or for any payments made late to other creditors. These rate increases are then applied retroactively to existing balances, making it harder for people to pay off their debt. In addition, card companies can raise the interest rate on the card at any time, for any reason. Prior to 1980, states had the power to set common-sense rules to protect borrowers from unscrupulous practices. Today, however, states have little jurisdiction over national lenders and banks—creating a consumer protection gap that only national legislation can close.

» **Create a universal, easily accessible, portable, and equitable savings vehicle.** The accounts should be offered to everyone and should offer progressive incentives to save. The federal government could provide a match through a refundable tax credit that is directly deposited into the workers' accounts.

Securing Homeownership and Housing Affordability

A significant impediment toward purchasing a first home is the difficulty of saving enough money for a down payment. The low percentage value of down payments is why many young families find themselves overextended in an unaffordable mortgage. Combined with existing low levels of asset accumulation, these challenges show the need for several types of new policies to help young Americans become stakeholders in our society. We suggest the following policy efforts:

» **Make Homeownership More Secure:** To help young families save for a downpayment on a home and thereby reduce their mortgage debt, HomeSavers accounts should be created that would provide progressive matches in the form of tax credits. For example, first-time homebuyers earning less than $50,000 could receive a $1 for $1 tax credit for money they save toward a down payment.

- **Protect Homebuyers from Deceptive and Abusive Mortgage Lending Practices:** Strong federal standards should be established that would protect consumers throughout the entirety of the mortgage process, including licensure at the federal level for mortgage brokers. Lastly, Congress should require that consumers be offered the best possible loan for which they qualify, rather than the largest and most costly loan they can be convinced into taking.
- **Reduce Foreclosures Among Sub-Prime Borrowers:** Lenders should be required to qualify borrowers based on the fully indexed rate of the loan—not the teaser rate as is the case with "exploding" adjustable rate mortgages. Additional steps to reform the sub-prime lending industry include: encouraging agencies to pursue meaningful enforcement against lenders and brokers whose underwriting practices harm homeowners; require that subprime lenders evaluate the borrower's ability to repay before making a home loan; and, outlaw mortgages with pre-payment penalties. Finally, Congress needs to establish a rescue fund to directly help households currently facing foreclosure as a result of aggressive and predatory subprime mortgages with no regard for their ability to repay.

Putting Family First

- **Enact Paid Family Leave:** Paid parental leave is critical to ensure young parents have the financial flexibility to stay home with a newborn child. In addition, evidence from other countries shows that paid parental leave increases the likelihood of a mother returning to her employer. Three states—California, Washington and New Jersey—offer benefits to workers taking time off to care for a new child or sick relative. These state plans cost workers as little as $17 a year and guarantee benefits of up to two-thirds of their salary for up to six weeks.
- **Establish Universal, Voluntary, Early Learning and Care:** For the last three decades our nation has pondered, then repeatedly rejected, the need for a coordinated, national system of infant care to pre-kindergarten programs. It's not just the right thing to do for working parents, but the smart thing to do for the future of the nation. Child development experts have confirmed that the first three years of a child's development are a critical stage in cognitive and emotional development. A universal and voluntary system would address three problems that characterize child care today: cost, availability and quality. Experts differ on the ways to achieve universal child care, with some proposing direct subsidies to providers while others promote integrating early childhood care and education into the existing public school system. Another model exists in the child care program for military members, which provides care to children between four weeks and 18 years old, with parents paying fees on a sliding scale according to income.

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