YOUNG ADULT ECONOMICS SERIES

Executive Summary

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Winter 2007

Although Americans of all ages have endured the economic and social changes ushered in by a shift from an industrial to a technology- and service-based economy, today's young adults are the first to experience its full weight as they try to start their lives. But the challenges facing young adults also reflect the failure of public policy to address the changing realities of starting, and building, a career and family in 21st century America. As America's 20- and 30-somethings are working to get into the middle class, they're being hit by a one-two punch: the economy no longer generates widespread opportunity, and our public policies haven't evolved to pick up any of the slack. And in many cases, public policy has exacerbated the problems young people face.

A Dēmos Policy Brief
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ACCESS TO HIGHER EDUCATION

In today's knowledge-based economy, a college degree is a necessary qualification for entry to the middle class. In response to this economic reality, more young people than ever before are going to college. Despite record enrollment, too many college-qualified high school graduates are not planning to attend college at all, they are attending community college, or are enrolling in but not completing college simply because they cannot afford it. Most of those who finish school, and many who do not, are also finding themselves saddled with a debilitating level of student loan debt.

- Today, nearly three-quarters of high school graduates enroll in some type of college after high school.[1] However, most do not complete their studies. Less than a third of young adults aged 25 to 29 had a bachelor's degree or higher in 2003—a percentage that hasn't risen nearly as fast as enrollments.[2]

- Inflation-adjusted tuition at public universities has nearly tripled since 1980, up from $1,758 in 1980 to $5,132 in 2004.[3]

- Thirty years ago, the average cost (tuition, fees, room and board) of attending a *private* college in 1976-77 was $12,837 annually, in inflation-adjusted dollars. Today, the average cost of attending a *public* university is $11,354. In other words, the burden of affording a state college today is equivalent to that of paying for a private college in the 1970s.[4]

- Since 1992-93, the average college graduate's student loan debt has grown from $12,100 to $19,300 (in 2003 inflation-adjusted dollars). Over a quarter of graduates had debt higher than $25,000, up from 7 percent in 1992-93.[5] Today, one-third of community college students borrow to pay for school, with an average debt of $8,700.[6]

- Every year, 410,000 *college-qualified* students from households with incomes less than $50,000 enroll in community college instead of going to a 4-year college. Another 168,000 *college-qualified* students don't enroll in college at all.[7]

- The maximum Pell Grant award—the nation's premier program for helping students from low-income households pay for college—covers about one-third of the costs of a 4-year college today. It covered nearly three-quarters in the 1970s.[8] But only 22 percent of Pell grant recipients get the maximum award[9]—the average award in 2003 was $2,466.[10]

- The federal government spent $81 billion in financial aid for the 2003-2004 school year. But 70 percent of this aid is in the form of loans, while grant aid only makes up 21 percent.[11]

- Student loans and grants are often not enough to cover the cost of higher education. Three out of four full-time college students are working and nearly one in two work 25 hours or more a week.[12]

- Within five years of entering college, 40 percent of students from the top socioeconomic quartile will earn a 4-year degree as compared to only 6 percent of students in the lowest quartile.[13] Over a quarter of white students who enter college will earn a bachelor's degree, whereas only about 15 percent of African-American and Latino college students will complete their degrees.[14]

Policy Recommendations

Between 2000 and 2015, the college-age population is expected to grow by 16 percent.[15] This generation will be more ethnically diverse, better prepared for college, and more likely to need financial aid. By 2015, 43 percent of the college-age population will be nonwhite, and students from low-income families will represent an increasing proportion of high school students.[16]

We need to change our policies and provide opportunities for all students who want to attend college, not only the ones whose families can afford it. America needs bold new efforts to increase access to higher education.

Through Congress, we need to create a **Contract for College** that would unify the existing strands of federal financial aid—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 for College** will recognize the important value of reciprocity, so part of each student's contract will include some amount of student loan aid and/or work-study requirement. Families should have early knowledge of the financial resources available to their children for college. At the start of the program, all students in the 8th grade and above will receive their **Contract for College** that estimates their aid package using the average cost of attendance at public 4-year institutions.

PAYCHECK PARALYSIS

Job security and stability were defining characteristics of the U.S. labor market from the 1950s to the mid-1970s. Today, young workers can no longer expect to work at a company with the intention of staying until retirement. Job instability is the new reality.

Despite the pervasive misperception that young adults are not succeeding because they lack a work and savings ethic possessed by previous generations, the reality is that young workers today often have multiple jobs and work longer hours than the Baby Boomers did in their 20s and 30s. They're losing economic ground because their paychecks are not growing as rapidly as their basic living expenses.

» In 1974, the typical male high school graduate in the 25 to 34 age group earned $42,697 in inflation-adjusted dollars. In 2004, the median earnings for this group had declined to $30,400.[17]

» In 1974, a young adult male with a bachelor's degree or higher earned, on average, $51,223 (in 2004 dollars). In 2004, young male college grads earned $50,700.[18]

» While most jobs have seen average wages decline over the last 30 years, there has been astonishing wage growth in some of the top-paying positions. This asymmetric growth has led to increased income inequality. In 1975, the average income of young adults in the top fifth of wage earners was about five times as great as the average income of young adults in the bottom fifth; in 2003 it was 11 times greater.[19]

» This inequality goes beyond earnings. In 1987, 68 percent of 25-to-34-year-olds had employer-based health insurance; in 2003, this figure was down to 61 percent.[20] Young adults make up the single largest group of uninsured America—18 million and counting.[21]

» In 1974, 44 percent of workers in the private sector were in a defined benefit pension plan. Today, only 17 percent are in such plans.[20] In 2000, just under 50 percent of all private sector workers were covered by any sort of pension, including 401(k) plans.[23] About 73 percent of those in the top quintile of earners had a pension plan, as compared to only 18 percent of those in the bottom quintile.

- As companies have shifted their focus from stability to profits in recent years, they have increasingly contracted out services as a way to cut labor costs. During the 1990s, the number of jobs handled by temp agencies more than doubled, growing from just under 1 million jobs to over 2 million jobs by the end of the century.[24]

- Today, contingent workers, or Tempsters, make up 16 percent of the workforce.[25] Tempsters earn less than they would if they were doing the same job on a permanent basis.[26] They are also much less likely to have health or pension benefits.[27] Nearly half of all contingent workers would prefer a permanent full-time job.[28]

Policy Recommendations

There is a fundamental tension that exists in the American ideal of college for everyone and the reality that the largest growth in jobs will be in the low-wage sector of the economy. These are the jobs that don't demand bachelor's degrees and often require little more than a few days of on-the-job training. Among the largest growing occupations over the next 10 years will be jobs in health services, such as medical assistants and 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. Local and state initiatives that have proven effective in moving people up the professional ladder in these occupations should be expanded.

- Several successful examples of career ladders exist, including programs that help teaching assistants become teachers and nursing assistants advance to registered nurses. These **programs should be scaled-up** through increased federal funding and nationalized standards.

- An apprenticeship, or **career ladder program,** in the health and teaching professions would address the reality that most young adults cannot return to school full-time and would recognize that many must enter the labor force rather than attend 4-year college.

- 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,** introduced in Congress in 2003, would mandate that employers recognize and authorize the formation of a union when a majority of employees have signed union cards.

CREDIT CARD DEBT

When young people start out on their own, either after graduating from college or when they get their first apartment, the need for credit is in a whole new category: survival debt. For young 20-somethings who can't turn to mom and dad for start-up money, launching their adult lives often entails going deep into credit card debt. With substantial debt already built up from college, many young adults can get tangled in a debt spiral they most likely never saw coming—one that threatens their ability to manage the costs of day-to-day living as they embark on adulthood, and can have long-term deleterious effects on the ability to build assets, save for retirement or support a family. As wages dropped or stagnated during the 1980s and 1990s, more and more people turned to credit cards to stay afloat. The new demand for credit cards was easily met by a hungry credit card industry. Deregulation of the credit card industry created an environment where credit card companies have had unfettered ability to define, and arbitrarily change, the terms, rules and practices of the credit card agreement—all without the kind of meaningful regulation that fairly balances obligations between America's households and other lending industries. Today, Americans have $800 billion in credit card debt.

» Seven out of 10 young adults with credit cards regularly have debt on their cards that they don't pay off each month, compared to just over half of all households.[29]

» In 2005, low- to middle-income 18-to-34-year-olds with credit card debt reported an average balance of $8,182.[30]

» In 1983, median consumer debt for 25-to-34-year-olds was $3,989 (in 2001 dollars).[31] By 2001, the median consumer debt for households under 35 had tripled to $12,000.[32]

» The average 25-to-34-year-old spends nearly 25 cents of every dollar of income on debt payments—more than double what baby boomers of the same age spent on debt payments in 1989.[33]

» By 2001, nearly 12 out of every 1,000 young adults aged 25 to 34 were filing for bankruptcy, a 19 percent increase since 1991.[34] Young adults now have the second highest rate of bankruptcy, just after those aged 35 to 44.

» College students are a prime target for credit card issuers, and the marketing onslaught has paid off. In 2002, the average college senior had six credit cards and an average balance of just over $3,200.[35] One in five students has credit card debt between $3,000 and $7,000.

» A set of Supreme Court decisions allowed national banks to charge their credit card customers the highest interest rate and fees permitted in the bank's home state—as opposed to the rate in the state in which the customer resides.[36] As a result, regional and national banks moved their operations to more states with little regulatory oversight, such as South Dakota and Delaware, where there were no laws limiting the amount of interest banks could charge for credit card loans. Since then, states began loosening their own usury laws, and 29 states have no limit on credit card interest rates.[37]

» High rates and fees that were once considered usurious are now just profit for the card companies. The average late fee is now $32, which in 2004 provided $10 billion in revenue for the card companies.[38]

» The credit card industry has become increasingly consolidated, with the top 10 card issuers controlling nearly 90 percent of the market.[39] The credit card industry earns $2.5 billion in profits each month.[40]

Policy Recommendations

Too few young people are able to save for their future and instead are moving in the opposite direction—toward long-term burdens of personal debt, often at very high interest rates. A rising tide of credit card debt is threatening young adults' shot at the American Dream. To deal with slow growth in wages, prolonged unemployment and higher prices for housing, gasoline and other essentials, more young people are financing their early years on credit. Re-regulation of the lending industry is necessary to curb widespread abusive lending practices that strip income and wealth from young adults.

A **Borrower's Security Act** would address the most egregious and abusive lending practices of the credit card industry. Credit card companies now routinely triple or quadruple the interest rate for a tardy payment or for any payments made late to other creditors. If card companies want to raise the interest rate, the new rate should only apply to future purchases on the card—as opposed to retroactively applying the new rate to the existing balance as is the current practice.

The **Borrower's Security Act** should also get the credit card companies off of our college campuses.

HIGH COST OF HOUSING

Once they leave home, many young people realize that they need to move to a major city to launch a career. Unfortunately, many people find that the rent charged for apartments is rarely in alignment with what their salaries can afford. Between 1995 and 2002, rents in nearly all of the largest metropolitan areas rose astronomically: Median rents in San Francisco ballooned 76 percent; Boston, 62 percent; San Diego, 54 percent; even in less costly Denver, rent shot up by 49 percent.[41]

Once an essential first step for many young families starting out, home ownership has become financially unfeasible for millions. With dwindling salaries and starter homes priced out of reach, for many young people the dream of owning one's own home remains elusive.

- In their struggle to find an affordable place to live, many young adults are moving back in with their parents. According to the Census Bureau, most young adults do not leave home until age 24,[42] and the percentage that move back home at least once after being on their own is much higher: Four out of 10 young adults detour back to the nest at least once.

- In 2002, the median percent of pre-tax income young adults spent on rent was 22 percent, up from 17 percent in 1970. Rising rents, particularly in central cities, has resulted in a higher percentage of young adults who spend more than 30 percent of their income on housing—the standard threshold of "affordability." In 2000, one-third of young adults aged 25 to 34 spent more than 30 percent on rent—up from less than one-fifth in 1970.[43]

- Since the 1970s, the amount of time it takes for young first-time homebuyers to save for a down payment has steadily increased. What took the previous generation two years now takes nearly four years.[44]

- Gen Xers housing debt is 62 percent higher than it was for Baby Boomers at the same life-stage.[45]

- After falling during the 1980s to a low of 43 percent, home ownership rates for young adults began rebounding slowly during the 1990s. Thanks to rising home values, declining interest rates and new innovative mortgages, the home ownership for young adults grew from 47 to 49 percent between 2000 and 2005.[7]

Policy Recommendations

Overall, today's young adults are hitting the marker of home ownership later in life and paying a greater portion of their income for it than their parents did. One of the significant impediments 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 so many young families find themselves overextended in a mortgage, often taking out "exotic" mortgages such as interest-only loans and adjustable rate loans that make homeownership much riskier. Combine these challenges with existing low levels of asset accumulation and it becomes clear that several types of new policies are needed to help young Americans build the assets necessary for long-term economic security.

- The **mortgage deduction should be limited** so that it provides incentives for home ownership without making the deduction yet another tax boon for the wealthy.

- The federal government should develop a **matched savings program** that would help young Americans and other low-income families save toward a down payment on a home. First-time homebuyers earning less than $50,000 should receive a $1 for $1 tax credit for money they save toward a down payment.

STARTING A FAMILY

Most parents with children under the age of five are in their late 20s or early 30s—making the issue of affordable and quality child care a core concern for young families. When most couples today decide to start a family, they are accustomed to having two full-time incomes to help pay the bills. After a child is born, however, they will have to deal with a reduction in income as one parent cuts back on work to stay with the child for at least the first three months.

Besides struggling with slow or stagnant income growth in their 20s, parents today have to contend with new costs associated with raising a family, such as child care and unpaid leave. Married couples with children, heavily burdened with increasing costs, are twice as likely as childless couples to file for bankruptcy. These couples are also more likely to be late paying bills and to lose their homes to foreclosure.

» In 1970, 19 percent of first births were to women aged 25 and older; by 2000 this percentage had increased to over 50 percent. Today, the average age at which a woman has her first child is 25, up from 21 in 1970.[46]

» According to the USDA, having a child under age two today costs a middle-income couple about $800 a month, about 18 percent of their pretax income. A family with two children under age five will have to deal with costs of nearly twice that amount.[47]

» For middle-income families, the cost of raising a child born in 1960 to age 18 was $155,141 (in 2003 dollars). In 2003, the cost rose to $178,590, a 15 percent increase caused mainly by health care and child care expenses.[48] Today, the average two-parent family with two children under age five spends 11 percent of their budget on child care, up from only 1 percent in 1960. Paying for a child's medical care now requires 7 percent of the monthly budget, up from 4 percent in 1960.[49]

» About 60 percent of working families nationwide with children under age five pay for child-care, at a cost of $325 per month on average.[50]

» Federal, state and local governments pay 39 percent, and businesses and foundations cover only 1 percent, of child-care costs.[51] A federal tax credit allows families to claim as a deduction up to 35 percent of their child-care costs. The maximum credit for families with two or more children is $2,100. However, most families get a credit of less than $1,000.[52]

» The biggest source of investment in child care is the federally funded Child Care and Development Fund (CCDF), whose sole purpose is to subsidize the cost of child care for low-income parents. Even though the federal government allocated $10 billion to the CCDF in 2003, the sum was only enough to cover one out of seven children in families eligible for the child-care subsidy.[53]

» According to several studies, most child-care in this country is of poor to mediocre quality.[54] The average wage for child care providers is only $7.86 per hour, which results in high turnover and a dearth of well-qualified providers.[55]

» In 1993, Congress passed the Family and Medical Leave Act (FMLA), which requires employers with 50 or more employees to provide up to twelve weeks of *unpaid* leave to care for a newborn or adopted child, or to care for a seriously ill family member. However, 45 percent of U.S. workers do not qualify for the Family and Medical Leave Act because they work for small businesses with less than 50 employees.

Policy Recommendations

For the last three decades, our nation has rejected a coordinated national system of child-care, from infant care to pre-kindergarten programs. Even though numerous studies show that providing access to quality early learning and care would save the government money in the long-run, the United States has no official family or child-care policy. Despite evidence that employees who have access to family-friendly policies are better workers, most major corporations do not do much to foster good parental behavior. The United States government must join the international community by supporting new families rather than turning its back on them. Experts estimate the cost of providing universal pre-kindergarten and improved toddler care at $50 billion to $75 billion per year. The federal government currently spends about $15 billion on child-care, and states spend about $4 billion.[56]

» Business and government could combine their resources by establishing an **American Family Trust** to fund the creation and maintenance of paid parental leave and universal child-care and education. The key for a well-trained future workforce is good early childhood education.

» **Paid parental leave** is critical to ensure that young parents have the financial flexibility to stay home with a newborn child. The United States should mandate that one month of leave be taken or formally declined.

Conclusion: Fulfilling the Promise of America for a New Generation

As a new generation has begun the journey of trying to work or educate their way into the middle class, the social contract that propelled upward mobility and promoted economic security has disappeared. College is unaffordable for millions and leaves the fortunate with heavy debt burdens; full-time work is no longer a protection against poverty; and families are left to fend for themselves as they try to balance their roles as parents and workers. Public policy has often failed to meet the new challenges of life in the 21st century, or shifted in ways that have hampered opportunity. The existence of a large and prosperous middle class has been a signature strength of this nation for the last half century. Today, signs abound that this new generation may be the first to not surpass the living standards of their parents. New policy initiatives are needed to close a growing disconnect between effort and reward, and to ensure that the aspiration to move into the middle class and the ability to stay there remains realistic and achievable. The policy recommendations outlined in this report are rooted in four fundamental American values:

Education is the Cornerstone of Social Mobility. The United States has historically emphasized the importance of education as the engine for social and economic advancement. Today, too many young people who aspire to become the first in their families to graduate from college are falling short of that goal because they can't afford the price of tuition. Major new reforms in federal financial aid are needed to ensure that anyone who wishes to make an investment in their future through college or vocational training will not be deterred by financial obstacles.

Work Should be Rewarded. Americans revere the notion of hard work. Yet 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. People who currently work in assistant capacities in the teaching and the health professions should be helped to achieve the fullest potential in these occupations—in order to help others.

Everyone Should Have A Stake in Our Society. The vast inequity in wealth that exists today has resulted in declining opportunity, as our nation's policy priorities have been set and skewed toward that of wealthy individuals and powerful corporations. Too few young people are able to save for their future and instead are moving in the opposite direction—toward long-term burdens of personal debt, often at very high interest rates. New investments and strategies are needed to help bring the benefits of asset accumulation to the millions of young adults who struggle to amass a down payment for a home, build a nest egg or save for their retirement. Re-regulation of the lending industry is necessary to curb widespread abusive lending practices that strip income and wealth from young adults.

Family Life Should Come First. Few values unite Americans more than the importance of family. Today's young adults, particularly young men, have embraced their roles as parents and seek to find a way to put their family before their work. Yet too many parents rush back to work after having a child and too many are forced to leave their children in mediocre or potentially harmful care while they work. Addressing the problems of quality, availability and affordability of child care must leverage the resources of the federal government, private sector and non-profit sector. In addition, new reforms are needed to help young adults be both good parents and good workers.

Dēmos' five-part **Young Adult Economics Series** provides comprehensive analysis and detailed policy recommendations on each of the issue areas covered in this overview. The series is available online at www.demos.org.

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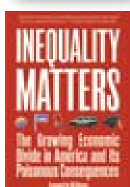

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Tamara Draut, Director
Economic Opportunity Program
tdraut@demos.org
212.633.1405

Cindy Zeldin, Federal Affairs Coordinator
Economic Opportunity Program
czeldin@demos.org
202.956.5144

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Dēmos: A Network for Ideas & Action is a non-partisan public policy research and advocacy organization committed to building an America that achieves its highest democratic ideals. We believe this requires a democracy that is robust and inclusive, with high levels of electoral participation and civic engagement; an economy where prosperity and opportunity are broadly shared and disparity is reduced; and a strong and effective public sector with the capacity to plan for the future and provide for the common good. Founded in 2000, Dēmos' work combines research with advocacy—melding the commitment to ideas of a think tank with the organizing strategies of an advocacy group.

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The Economic Opportunity Program addresses the widespread economic insecurity and declining opportunity that characterizes American society today. Our efforts focus on envisioning and ensuring the future middle class by promoting new ideas in the areas of higher education, income and asset-based policy. Our work examining the growth of personal debt among low- to middle-income households is indicative of the new challenges Americans face as they try to get by—let alone get ahead.

For more information, contact Tamara Draut (tdraut@demos.org), Program Director, or Cindy Zeldin (czeldin@demos.org), Federal Affairs Coordinator.

Dēmos

A Network for Ideas & Action

220 Fifth Avenue, 5th Floor
New York, NY 10001
Phone: (212) 633-1405
Fax: (212) 633-2015
www.demos.org