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Student Loan Update: A First Look at the 2013 Survey of Consumer Finances

Elizabeth J. Akers and Matthew M. Chingos

Introduction and Summary

Earlier this year, we released a report aimed at injecting some much-needed evidence into what has become an often-hysterical public debate about student loan debt.[1] Our report, "Is a Student Loan Crisis on the Horizon?" used data from the Survey of Consumer Finances (SCF) administered by the Federal Reserve Board to track how the education debt levels and incomes of young households evolved between 1989 and 2010. The data showed large increases in average debt levels over time, but also revealed some surprising findings.

First, we found that roughly one-quarter of the increase in student debt between 1989 and 2010 can be directly attributed to increases in educational attainment, especially at the graduate level. Second, the increases in the average lifetime incomes of college-educated workers appear to have more than kept pace with increases in debt loads between 1992 and 2010. Specifically, the increase in earnings received over the course of 2.4 years would pay for the increase in debt incurred. Third, the monthly payment burden faced by student loan borrowers stayed about the same or even lessened between 1992 and 2010.

One limitation of our June 2014 report is that we could only examine data through 2010, the last year of SCF data that was available at the time. Consequently, our analysis could have missed recent trends in borrower well-being. Last week, the Federal Reserve Board released the 2013 SCF data, which enables us to extend our analysis to capture a snapshot of education debt through just last year.

In this research brief, we update key indicators from our earlier report with data from the 2013 SCF (a full set of updated figures and tables is available upon request). In general, the 2013 data paint a broadly similar picture to the 2010 data, and do not reveal any sharp departures from prior trends. Debt levels continued to increase, but at a slower pace than in previous years. Average incomes of borrowers fell slightly, but the decrease was small enough that monthly loan payments as a share of monthly incomes remained the same.

Elizabeth J. Akers is a fellow in the Brown Center on Education Policy at the Brookings Institution.

Matthew M. Chingos is a senior fellow in the Brown Center on Education Policy at the Brookings Institution.

The 2013 data confirm that Americans who borrowed to finance their educations are no worse off today than they were a generation ago. Given the rising returns to postsecondary education, they are probably better off, on average. But just because higher education is still a good investment for most students does not mean that high and rising college costs should be left unquestioned.

SCF Data

The Survey of Consumer Finances is a household-level, nationally representative survey administered every three years by the Federal Reserve Board. SCF captures detailed data on both earnings and liabilities, including student loans, as well as limited background information such as race/ethnicity and educational attainment. We focus on young households, which we define as households where the average age of adults is between 20 and 40. We use survey weights throughout our analysis so that the results are nationally representative.

We report all amounts in 2010 dollars in order to ease comparisons with the figures included in our earlier report, which are identical to those reported here, except for the addition of results based on the 2013 SCF data. Readers can inflate the reported amounts to 2013 dollars by increasing them by seven percent (e.g., $100 in 2010 dollars becomes $107 in 2013 dollars).

We focus our discussion on changes between 2010 and 2013, as a detailed discussion of trends leading up to 2010 can be found in our earlier report.

Debt Levels through 2013

We begin by updating our analysis of education debt levels, which we measure as the total outstanding balance of all education debt held by households, calculated on a per-adult basis (that is, we divide household debt by two for households where a spouse is present). It is important to note that we measure the amount owed at the time of the survey, which will differ in many cases from the amount originally borrowed.

Trends in average debt levels are shown in Table 1. The share of young households with any education debt increased slightly between 2010 and 2013, from 36 to 38 percent, and average debt levels increased as well. Among all young households, including those without debt, the mean debt level increased by 14 percent, from $6,502 to $7,382, during this three-year period. Among households with education debt, the mean debt level increased by 8 percent, from $17,916 to $19,341 over the same period.

The continued increase in debt levels is not trivial, but is smaller than increases in the preceding decade. For example, whereas mean debt among all young households increased by 14 percent between 2010 and 2013, it previously increased by 42 percent between 2007 and 2010, by 35 percent between 2004 and 2007, and by 18 percent between 2001 and 2004.[2] In sum, the increase in debt appears to have slowed somewhat in recent years.

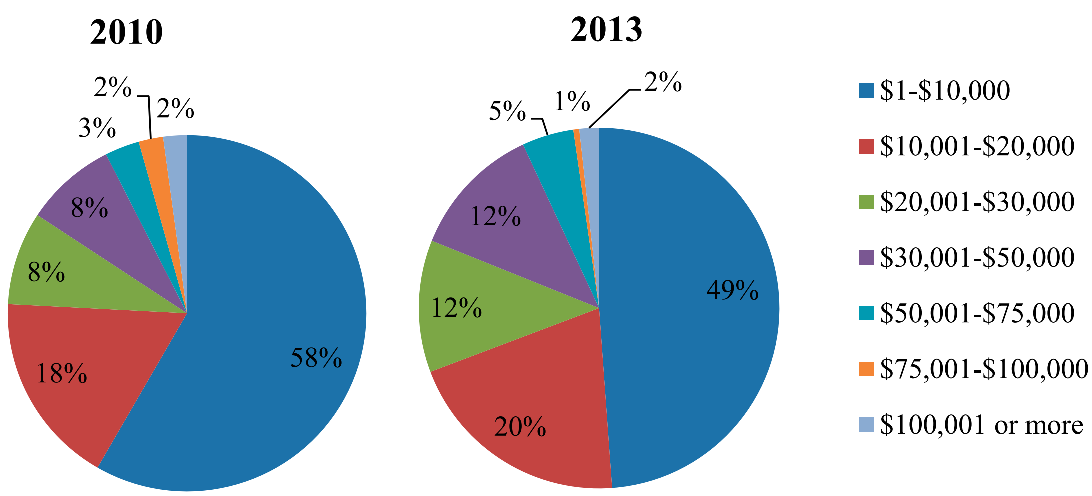
Changes in average debt may mask changes in the distribution of debt, such as the share of young households with large balances. That does not appear to be the case. Figure 1 shows that the share of borrowers with more than $100,000 in outstanding education debt stayed about the same from 2010 to 2013, at two percent. The percentage with more than $50,000 in debt also stayed about the same, at seven percent. In sum, the high-debt individuals featured prominently in news stories in recent years don't appear to be part of a phenomenon that has become more common since 2010.

Table 1. Incidence and Amount of Debt Over Time, Age 20-40

Year	Incidence	Mean Debt	Those with Debt		Cell size
			Mean	Median	
1989	14%	$806	$5,810	$3,517	971
1992	20%	$1,498	$7,623	$3,730	1,323
1995	20%	$1,475	$7,521	$3,577	1,429
1998	20%	$2,539	$12,826	$8,027	1,362
2001	22%	$2,881	$12,939	$6,156	1,307
2004	24%	$3,402	$14,204	$7,503	1,246
2007	28%	$4,583	$16,322	$9,728	1,144
2010	36%	$6,502	$17,916	$8,500	1,865
2013	38%	$7,382	$19,341	$10,390	1,623

Notes: All amounts are in 2010 dollars.

Figure 1. Distribution of Debt, 2010 and 2013



Notes: Based on households age 20-40 with education debt. All amounts are in 2010 dollars. The apparent increase in the percentage with more than $50,000 in debt (i.e. the sum of the three highest categories of balances) is due to rounding error. The percentage actually decreased slightly, from 7.46 to 6.93 percent.

Borrower Well-being through 2013

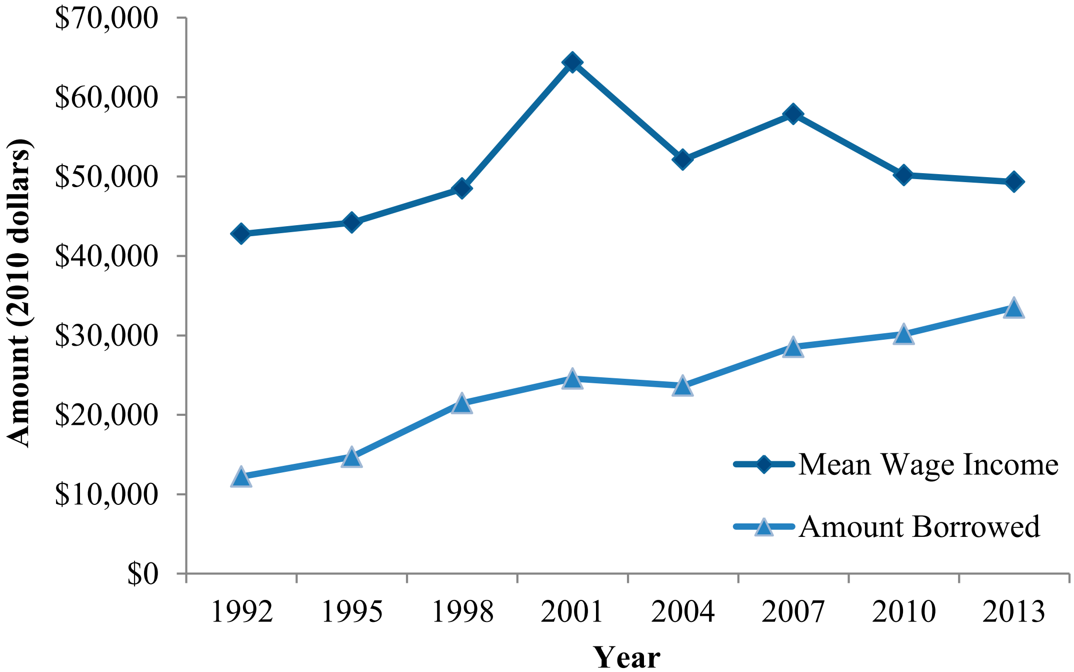
We next update our analysis of trends in the financial well-being of households with education debt, which we measure in two complementary ways in order to examine both the long- and short-term burden of education debt. We conduct this analysis at the household level due to the structure of the SCF data.

First, we take a long-term look at well-being by considering how increases in total borrowing have evolved alongside changes in lifetime income. The SCF data measure annual income, not lifetime income. As we explain in our previous work, it is not helpful to directly compare a lifetime measure of debt to a one-year measure of income, so instead we calculate the number of years after which the average borrower is better off than the average borrower in an earlier period.

Figure 2 tracks average total borrowing and average wage income for young households from 1992 to 2013. In our earlier report, we showed that the average increase in borrowing between 1992 and 2010 would be paid for with the average increase in earnings over 2.4 years. Extending this analysis to 2013 paints a slightly worse picture, as borrowing continued to increase (by 11 percent between 2010 and 2013), whereas mean wage income fell slightly (by two percent). The result is that the increase in total borrowing between 1992 and 2013 was 3.2 times the increase in annual wage income over this period. That is, it would take 3.2 years for the average increase in earnings to cover the average increase in borrowing.

The upshot of the 2013 data is that households with education debt today are still no worse off than their counterparts were more than 20 years ago. Even though rising debt continued to cut into stagnant incomes, the average household with debt is better off than it used to be.

Figure 2. Borrowing and Wage Income, 1992-2013

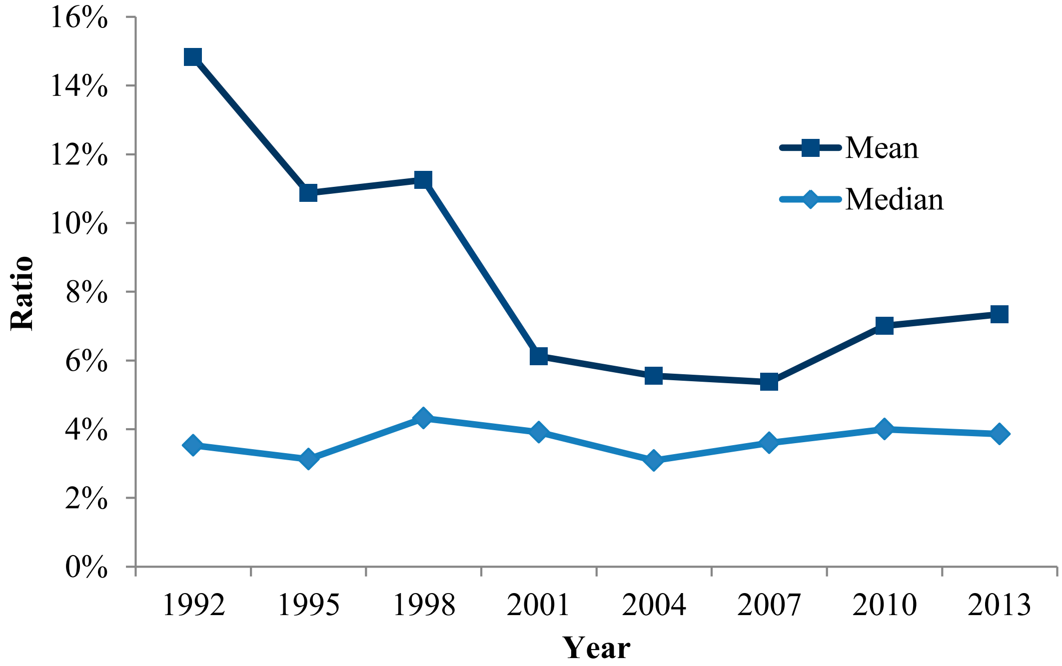


Notes: Based on households age 20-40 with education debt. All amounts are in 2010 dollars.

Second, we examine the short-term burden of repaying education loans by tracking how much of the typical household's monthly income is taken up by student loan payments.[3] One concern raised by our long-run analysis is that the typical household may be in a strong financial position in the long run, but is burdened in the short run by unaffordable monthly payments due to a relatively short period of repayment.[4]

That concern was not borne out in the data from 1992 to 2010, with mean payment-to-income ratios declining and the median ratio remaining about the same. The 2013 data show payment-to-income ratios that are nearly identical to the 2010 figures. Figure 3 shows that the mean ratio stayed at seven percent between 2010 and 2013 (after increasing from five percent in 2007) and the median stayed at four percent.[5] However, the share of borrowers with relatively high payment-to-income ratios increased somewhat between 2010 and 2013, but by a smaller margin than over the 2007-2010 period. For example, 17 percent of borrowers had payments exceeding 10 percent of their income in 2013, up from 15 percent in 2010 and 10 percent in 2007.

Figure 3. Monthly Payment-to-Income Ratios, 1992-2013



Notes: Based on households age 20-40 with education debt, wage income of at least $1,000 (in 2010 dollars), and that were making positive monthly payments.

Discussion

The newly released SCF data paint a picture that is broadly consistent with prior data. Debt, incomes, and payment-to-income ratios in 2013 do not indicate an enormous divergence from previously identified trends. The increase in average debt slowed down somewhat; average incomes did not recover from the recession-induced dip, despite the broader economic recovery; and payment-to-income ratios remained about the same despite a slight uptick in the share of households with relatively high ratios.

The fact that most households with education debt continue to be in a stronger financial position than they were a generation ago does not mean that there are no problems with the student lending system in the U.S. As students take on more debt to go to college, they are taking on more risk. This risk is rewarded for the average borrower with increased earnings, but individuals who make bad or unlucky bets will be farther from financial security than borrowers in the past.

In the past, students and families assumed most of the risk of educational investments by paying costs out of pocket or with modest loans, nearly all of which were backed by the federal government. More recently, a greater share of that risk has been shifted to taxpayers through the creation and expansion of income-based repayment programs. Improving these programs to ensure their financial sustainability and mitigate their unintended consequences remains a worthy goal for policymakers.[6]

Separate from the level and distribution of risk is the issue of rising college costs. Just because higher education is still a good investment for most students and borrowers are adequately protected from unaffordable monthly payments on their loans does not mean that high and rising college costs should be left unquestioned. Students would no doubt benefit from a better functioning market for higher education in which the cost of college attendance tracks closely with the value that it provides.

End Notes

1. Beth Akers and Matthew M. Chingos, "Is a Student Loan Crisis on the Horizon?" Brown Center on Education Policy, Brookings Institution, 2014.
2. The increase of mean debt among all young households in (inflation-adjusted) dollar terms between 2010 and 2013 ($881) was smaller than the corresponding increases for 2007-2010 ($1,918) and 2004-2007 ($1,181) but not 2001-2004 ($521).
3. We restrict this analysis to households that had education debt, wage income of at least $1,000, and that were making positive monthly payments on their loans. Removing the wage restriction does not qualitatively alter the results, and the share of households making positive payments on their education loans has not trended in a particular direction over this time period (it increased from 64 to 68 percent between 2010 and 2013).
4. For a discussion of this issue, see Susan Dynarski and Daniel Kreisman, "Loans for Educational Opportunity: Making Borrowing Work for Today's Students," Discussion Paper 2013-05, Hamilton Project, Brookings Institution. 2013.
5. More precisely, the mean ratio was 7.0 percent in 2010 and 7.3 percent in 2013, and the median was 4.0 percent in 2010 and 3.9 percent in 2013.
6. Beth Akers and Matthew M. Chingos, "Student Loan Safety Nets: Estimating the Costs and Benefits of Income-Based Repayment," Brown Center on Education Policy, Brookings Institution, 2014.

Brown Center on Education Policy
The Brookings Institution
1775 Massachusetts Ave., NW
Washington, DC 20036
Tel: 202.797.6090
Email: browncenter@brookings.edu

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Liz Sablich

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