Statistics on Student Education Debt

Getting a college degree is a huge investment of time and resources. Therefore understanding the financial benefits as well as the costs are essential. Planning ahead for the cost of higher education can be crucial for the students and their families. Unfortunately, most families don't have a financial plan to cover the cost of college prior to their child enrolling. One of the most widely used resources are scholarship search websites followed by high school guidance counselors. The online financial aid eligibility and expected family contribution calculators are another popular resource. Bottom line: families who do not have a financial plan may be caught off-guard by unexpected expenses and fall short on the resources needed.

Families are more cost conscious

Since 2010, families have reduced how much they spend on college in a variety of ways including eliminating schools based on the cost of attendance, having the student live at home or attend a 2 year college for the first part of their degree program. Parental contributions in particular have declined significantly, down to 36% in 2013 compared to 47% in 2010. Grants and scholarships are now the largest contributor with student borrowing to fill the gap. In 2013 17% percent of families used their 529 college savings plans to cover 7% of total costs of college, representing the highest level yet of using 529s to pay for higher educational expenses. [1]

Investment in the future

Parents continue to feel strongly that college is an investment in their child's future. Many say they are willing to financially stretch themselves to help their child earn a degree. The benefits of higher education are clear. Employment options and lifetime earnings for college graduates far exceed someone who only earns a high school degree. On average, bachelor's degree recipients will earn 65% more over their lifetime than someone with only a high school degree. College graduates also generally face much lower unemployment rates.[2]

Impact of student loan debt

Fewer students borrowed to pay for college in 2013, but those who did borrow took out larger loans than in the past. According to the 2013 American Student Assistant's survey, student loan debt is profoundly impacting the way student borrowers make important life decisions as well as limiting their ability to achieve financial success. The following are some statistics from the survey about the impact student loan debt was having on their lives:[3]

- 27% found it difficult to buy daily necessities
- 63% were unable to make large purchases such as a car
- 73% are putting off saving for retirement or making other investments
- 75% say it affected their decision or ability to purchase a home
- 30% say it had considerable impact or was the deciding factor, in their choice of career path
- 47% indicated it was the deciding factor, or had impact, on their ability or decision of whether to start their own small business
- 29% have put off marriage
- 43% have delayed starting a family

Society as a whole is impacted by the student loan burden as our young adults decide to not take their desired career paths, delay or never buy a home, stifle entrepreneurship, loose interest in working in the public sector, delay getting married, starting a family and investing for retirement.

Private student loans

The availability of private student loans really dried up during the recent recession, but students did continue to take them out. The College Board, Trends in Student Aid 2013, for the 2011-12 academic year noted the following:[4]

- 6% of undergraduate students took out private education loans compared to 14% five years earlier
- Families with incomes between $65,000 and $105,999 were more likely to take a private student loan
- 57% of public four-year college bachelor's degree recipients graduated with an average borrowed debt of $25,000
- 65% of private nonprofit four-year college bachelor's degree recipients graduated with an average borrowed debt of $29,900

$1 trillion student debt

We frequently hear in the news about the $1 trillion student debt. This frightening figure refers to estimates of the outstanding value of education loan debt, both federal and private. This is the amount that students and parents have borrowed, including accrued interest and other charges, but have not yet repaid. We also hear about many graduates who have crippling debt of $100,000 or more. The reality is that the vast majority of graduates with student debt in 2011-12 were well below that figure:[4]

- 40% of borrowers owed less than $10,000
- 30% owed between $10,000 and $25,000
- 4% of borrowers owed $100,000 or more

Student debt continues to rise

The unfortunate reality is that student debt continues to rise. Debt at graduation, including federal and private loans, increased an average of 6% each year since 2008. The Project On Student Loan Debt found that 7 in 10 college seniors (71%) who graduated in 2012 had student loan debt, on average of $29,400.[5]

The Project On Student Loan Debt says that private student loans are one of the riskiest ways to finance a college education. You would almost be better off using a credit card. Private loans typically have high variable interest rates, as high as 18% in 2008, with loans rates often highest for those who can least afford them. Unlike credit card debt, private loans are nearly impossible to discharge in bankruptcy. Private student loan borrowers are not eligible for the important benefits that come with federal student loans such as deferment, income-based repayment, or loan forgiveness options.

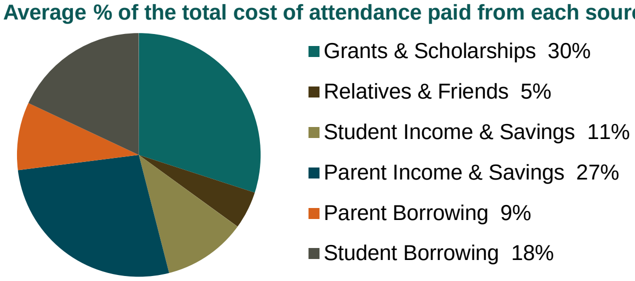
Let's look at student debt for some Wisconsin 2012 bachelor's degree recipients: [6]

- University of Wisconsin-Madison: 49% graduated with an average debt of $24,700
  - 17% of that debt was non-federal aid
- University of Wisconsin-Milwaukee: 72% graduated with an average debt of $32,371
  - 25% of that debt was non-federal aid
- Alverno College: 92% graduated with an average debt of $41,405
  - 16% of that debt was non-federal aid

How do families pay for college?

So how do families pay for college? In 2013, families spent around the same on college as they did in 2012. Parents will likely continue the trend of reducing their out-of-pocket spending. The biggest change has been the shift to reliance on grants and scholarships. And most grants are for lower income families. Here's a snap shot of the funding sources families used in 2013.[1]

Average % of the total cost of attendance paid from each source



So the question arises, is a college education worth this great expense? Yes. Statistics show that, despite borrowing the full tuition and fees to attend a four-year college and without any grant aid, a student who enrolls at age 18 and graduates in four years can expect to earn enough by age 36 to compensate for being out of the work force for those four years. And if the same student attended a public college or university with lower tuition and fees the breakeven age drops to 33.[2]

Investors should consider the investment objectives, risks, charges and expenses associated with a 529 Plan before investing. This and other information is available in a Plan's official statement. The official statement should be read carefully before investing.

Depending on your state of residence, there may be an in-state plan that provides tax and other benefits not available through an out-of-state plan. Before investing in any state's 529 plan, you should consult your tax adviser.

Sources:
[1]Sallie Mae, annual national study How America Pays for College 2013
[2]College Board, Education Pays 2013
[3]American Student Assistant Survey
[4]College Board, *Trends in Student Aid 2013*
[5]The Project On Student Loan Debt
[6]*Student Debt and the Class of 2012*