PROMOTING FINANCIAL HEALTH THROUGH HIGHER EDUCATION

Sarah Bloom Raskin
U.S. Department of the Treasury

The financial health of every American household is crucial to achieving inclusive growth and prosperity in our country. Indeed, as the recovery from the financial crisis made clear, the American economy is only as resilient as the American households that are its bedrock. Financial health allows households to save, build wealth, and access credit, which not only means they can absorb unexpected fluctuations to their day-to-day incomes and spending needs, but also that they can meet longer-term goals such as buying a home or financing a secure retirement.

Higher education is integrally linked to financial health. As Martha Kanter and Regina Stanback Stroud point out in this volume, members of financially healthy families are better able to take advantage of educational opportunities, and completing an affordable and high-quality higher education program in turn advances the fundamentals of financial health. These higher education outcomes are thus crucial to our nation's growth and prosperity.

With so much at stake, it is not surprising that around kitchen tables everywhere, Americans are discussing a number of essential and complex questions about higher education: How much should taxpayers spend to support higher education? What factors should student borrowers consider when they take on college and graduate school debt? To what extent can tuition rates be lowered without compromising the ultimate value of higher education? This essay provides the context for these discussions.

The financial crisis depleted the assets of many households. From 2007 to 2010, median family wealth fell 38.8 percent as home prices plunged. According to the most recently available comprehensive data, median

family wealth fell another 2 percent from 2010 to 2013.[1] Together with unemployment and underemployment, this loss of wealth destroyed many households' financial standing. Many saw their savings decimated, leaving them to start from scratch to rebuild their wealth.

As Ray Boshara establishes at the outset of this book, although the U.S. economy has made progress since the end of the financial crisis, many American households have yet to recover. Too many Americans continue to lack meaningful employment, and for many, wages are little changed. Indeed, Boshara shows that although average household incomes have reached pre-recession levels, the recovery from 2008 to 2012 was driven by the highest two income quintiles while the bottom three quintiles saw little or no income growth. Although the pickup in employment growth since 2013 has improved prospects for households in the lower and middle parts of the income distribution, real median earnings among full-time workers in the second quarter of 2015 were still only about where they were before the recession.

To what extent is higher education able to improve the financial standing of households in the lower and middle part of the income distribution? Research shows that an investment in high-quality, complete, and affordable higher education—that is, higher education that delivers access to meaningful employment and creates the conditions for long-term financial stability and well-being—can boost income and, in turn, be a significant asset-building tool for American households.

Over a lifetime, the average college graduate with a four-year degree in 2013 would earn nearly $275,000 more than someone with a high school diploma alone, after netting out the cost of college and foregone wages while in school.[2] College graduates also experience lower unemployment rates; in 2014, college graduates were approximately 40 percent less likely to be unemployed than individuals with only a high school diploma.[3]

---

1 Federal Reserve Board, "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," (September 2014), p. 12; "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," (February 2009), p. 1.

2 Jaison R. Abel and Richard Deitz, September 2, 2014, "The Value of a College Degree," *Liberty Street Economics*, Federal Reserve Bank of New York.

3 U.S. Bureau of Labor Statistics, *Employment Projections: Earnings and Unemployment Rates by Educational Attainment*, April 2015.

Not only is a high-quality education an important asset for individual households, it can be a collective national asset and a force for societal progress that warrants appropriate governmental investment and stewardship. An educated populace enhances civic engagement, creates less reliance on already strapped social safety net programs, and importantly, builds human capital that propels innovation and economic growth.

Yet significant work remains to enable Americans to prudently invest in their education as an essential financial asset. Like any asset-building investment, investing in a college degree carries risks. Specifically, because of the substantial variation in higher education experiences, in terms of tuition costs, fields studied, types of schools, and completion rates, and because of the particular features of our student loan financing system, in terms of accountability of schools, servicing practices, and dischargability rules in bankruptcy, outcomes vary widely. Students have to consider and understand all these variations and features if they are to make informed decisions about where to obtain post-secondary education and how to pay for it.

The cost of college has risen. Many states have reduced their financial support to colleges and universities at precisely the same time that many households have reduced means to pay for tuition. As a result, students have taken on more debt to finance education. As of 2013, approximately 70 percent of students graduating from public and private nonprofit colleges had student loan debt.[4] At the end of June 2015, the average federal debt per recipient was about $29,000.[5]

In addition, the growth in recent years of for-profit schools of varying quality has raised concerns. For-profit schools have different incentives from traditional nonprofit public and private colleges and universities. One result is that it is now even more difficult to make well-informed enrollment decisions, increasing the likelihood that students will take on significant debt to earn low-quality degrees in fields with limited earning potential. This challenge is exacerbated by the fact that many colleges and universities that benefit from enrolling students who finance their

---

4 Matthew Reed and Debbie Cochrane, "Student Debt and the Class of 2013" (Washington, DC and Oakland, CA: Institute for College Access and Success, November 2014).

5 Department of Education, Federal Student Aid Portfolio Summary, Fiscal Year 2007- 2015 Q3.

educations with federal and private loans are not held accountable for the outcomes of their students who have taken on debt.

As a result, in some cases individuals never see the financial benefits from higher education—and, in fact, some are worse off after they pay for a degree. Some students obtain degrees that do not improve their wages sufficiently to justify the costs. Others do not complete a degree. Some take on debt they cannot afford, and some default on their loans and, given the current rules of bankruptcy, live with the financial consequences for years and possibly forever.

Recognizing the risks students face—as well as the risks to our economy and society that can emerge if the nation is not adequately building our human capital—at the very least, we should provide better information and guidance to help Americans invest wisely in higher education. Structural reform is certainly necessary. But in the meantime, students should have a better understanding of the varied outcomes from different programs and schools, and how these outcomes influence the way they pay for their education. Is the student likely to graduate? Will a career-path job follow? Will that job support the tuition bill, especially tuition paid through loans? Does the education lead to opportunities to serve in positions, such as teaching in under-resourced communities, that have opportunities for debt forgiveness? These questions are especially pertinent for students from families and communities in which few, if any, members have attained post-secondary education.

Readers of this book can play an important role in helping Americans build greater wealth by promoting awareness of the subtle differences across varying forms of higher education, degrees, and institutions, and by protecting households from foreseeable investment risks. Readers can contribute to discussions regarding policy prescriptions for greater accountability by colleges and universities for the outcomes of their students. We need more discussions about the role of student loan servicers and about obstacles to achieving the fresh start through bankruptcy. In terms of structural reform, these discussions are needed now more than ever in support of a household asset that has the potential to enhance financial well-being for families and, by virtue of the strength of that financial well-being, our country's prosperity.

***SARAH BLOOM RASKIN** is Deputy Secretary of the U.S. Department of the Treasury. In addition to directing policies and implementation that sustain U.S. economic recovery and growth, Raskin has brought refreshed focus to the impact of student loan borrowing on our economy and students. Prior to her confirmation at Treasury, Raskin served as a Governor of the Federal Reserve Board. Prior to that, she served as the Commissioner of Financial Regulation for the State of Maryland. Raskin received her B.A. in economics from Amherst College and her J.D. from Harvard Law School.*