
10 Truths about Student Loan Debt

Date : November 12, 2018

With so much talk about student loan debt, it's easy to become mired in all the mind-numbing numbers. The bottom line is this: lots of students are borrowing money to pay for college (often without understanding the consequences), and those decisions are having an often-painful financial impact on their lives for a very long time.

Here are 10 truths about the student debt crisis in the U.S. Read them, and then visit the Related KWHS Stories tab on the right side of the page to find help with making more informed choices about paying for your higher education.

1. Student debt has more than tripled since 2004, reaching \$1.52 trillion in the first quarter of 2018, according to the Federal Reserve — second only to mortgage debt in the U.S. College costs have outpaced the Consumer Price Index more than four-fold since 1985, and tuition assistance today is often harder to come by, particularly at schools without large endowments. “We’ve come to a place where most students have to borrow in order to pay the cost of completing a bachelor’s degree,” said University of Pennsylvania professor Laura W. Perna, executive director of Penn’s Alliance for Higher Education and Democracy.
2. About 44 million graduates hold student debt, and today’s graduates leave school holding promissory notes (promises to repay their loans) worth an average of \$37,000, raising concerns that the burden is creating a cascade of pressures compelling many to put off traditional life milestones. The storyline, as it has emerged, is that college debt delays buying a house, getting married, having children and saving for retirement, and there is some evidence that this is happening.
3. Before the Great Recession, student debt levels were below auto loans, credit card debt and home-equity lines of credit in the ranking of household debt. Since then, student loan debt has surpassed these other debts, according to the Federal Reserve Bank of New York. “It’s changing the culture of America,” said Christopher Peterson, a University of Utah law professor and consumer finance expert, during a recent segment on the [Knowledge@Wharton radio show on SiriusXM](#). “It doesn’t have to be this way. A lot of advanced industrialized countries manage to provide education for their citizens without inflicting this long-term debt burden on young people.”
4. A more advanced level of education is considered essential. “Higher education is increasingly important to individuals and our society,” said Perna. “Individuals who attain higher education average higher salaries, which translates into a higher tax base. With higher levels of education attainment, there is also less reliance on social welfare programs, as individuals who attain higher education are more likely to be employed, less likely to be unemployed, and less likely to be in poverty. Higher levels of education are also associated with greater civic engagement, as well as lower crime.”
5. In 2002, a bachelor’s degree holder could expect to make 75% more than someone with just a high school diploma, and nearly a decade later that premium had risen to 84%, according to the Georgetown University 2011 study “The College Payoff: Education, Occupations, Lifetime Earnings.” A bachelor’s degree is worth about \$2.8 million over a lifetime, the study also found.
6. While we’re drawn to the stories of people caught under the burden of \$100,000 in student loan debt, that is not the norm. In 2014, the largest chunk of student debt — nearly 40% — belonged to people owing between \$1 and \$10,000.

7. A bigger problem is when students take out loans and then don't graduate from college. "The vast majority of the college premium is stored up in actually getting that degree. So if you have \$5,000 or \$10,000 in student loans that cannot be discharged in bankruptcy — and only in very rare circumstances can they be discharged in bankruptcy — but only have the labor market opportunities of someone with a high school diploma, that ends up being a really bad situation for a lot of people," said Douglas Webber, an economics professor at Temple University in Philadelphia, Pa.

8. Some other countries have devised creative ways of handling repayment of debt. Australia has a system that links the repayment of loans with the tax system. "Income-driven repayment options have been created in the U.S.," said Perna, "but these options are more cumbersome and administratively complex than in Australia and some other nations. By linking the amount of the monthly payment to an individual's income, income-driven repayment options can help to protect borrowers against the risk of non-repayment."

9. "Promise" or "free tuition" programs cropping up in some states are also worth examining, Perna said. New York, Maryland and other states have proposed new and expanded programs to pay college costs for eligible students. "The movement toward these programs suggests an opportunity to think about how different sources of financial aid come together to ensure that all students have the financial resources that are needed to pay the cost of going to college."

10. In the end, the job you get when you graduate is extremely important, ideally giving you the chance to pay off that student loan debt. Even so, it's hard to choose wisely. Students today are focused "even more on the job market in choosing college majors," said Wharton management professor Peter Cappelli, director of the school's Center for Human Resources. "That's not a great thing because it is very hard to predict which jobs will be hot, and using college just as the basis for getting your first job makes it a poor investment over the lifetime." The hope on rising student debt was that the economic upturn would start to take care of the problem, added Cappelli. "It certainly helped, as there are more jobs and fewer graduates whose loan debt keeps growing while they have no ability to even make payments. The lack of income growth, though, especially for those at the bottom of the ladder — as many students are when they start out — is the main problem now. For many students, they can make their payments, but do little else: They can't buy houses or start families."