Center for American Progress

Important Insights on College Choice and the Burden of Student-Loan Debt

By Elizabeth Baylor and Olivia Murray June 24, 2014

Completing higher education after high school continues to be the most reliable way for Americans to expand their economic opportunity. Students gain skills that not only let them achieve a secure economic future, but also allow them to experience fulfilling professional opportunities. For many students and families, this means taking on debt to pay for a degree at a college, university, or technical training center.

During the 2011-12 school year, higher-education institutions collected $154 billion in tuition and fees; families and students financed these costs with $106 billion in loans from federal student-aid programs.[1] Given this level of borrowing, it is important that the United States reform its financial aid system so that students can make the best educational choices to ensure their financial success. The country must also provide loan repayment options that allow people to manage the debt they take on in order to get their degrees.

Late last year, the Center for American Progress highlighted the importance of understanding the role that student debt plays in the college selection process.[2] In particular, the CAP column discussed the fact that many people choose a college without a clear sense of how student-loan debt will affect their lives after they leave school.

The people most suited to provide insight into a discussion about the impact of student-loan debt are those who are working hard to pay off student loans. Therefore, this analysis describes results from a survey of the indebted individuals that CAP first wrote about in December 2013.[3] This brief outlines the perspectives of student borrowers in the ongoing conversation about student debt and college success and presents some important policies that can help minimize student-loan borrowing and make repayment more affordable.

Survey of borrower perspectives on student-loan debt and college choice

As members of the Higher Ed, Not Debt campaign, the Center for American Progress and its youth-advocacy team, Generation Progress, conducted a survey of former students with loans and asked them questions about whether they thought about debt when choosing a college. The survey asked these students how likely they would be now, after experiencing loan repayment, to consider debt important to their college choice. A total of 27,686 former students answered the four survey questions examined for this analysis. By its design and definition, it included the perspectives of people who are concerned about student-loan debt; students who did not borrow to finance their education are less likely to respond to a survey that covers these topics. The survey sought information about how borrowers evaluated the impact of debt after leaving the postsecondary education system in order to see if it is possible to better direct the choices of incoming students so they can minimize their student-loan debt.

This issue brief examines the survey results across four key topics: level of education, the amount of debt owed, the factors considered upon college enrollment, and the factors most important after leaving school and entering loan repayment. It organizes this information based on the amount of debt students had when they left school and the level of degree they attained. The brief also compares this information to the respondents' answers about their top factors for choosing a school at the time of enrollment versus their top factors now. In particular, it examines if borrowers included net price as one of their top five factors for selecting a college at either point. Net price is defined as the amount paid for tuition and fees after discounting scholarships and grants that do not need to be repaid.

About the survey respondents

As stated above, this survey collected responses on the four survey questions from 27,686 people with various levels of education and debt. This analysis provides insights into the priorities and situations of students with varying degree levels. Table 1 lists the education levels of those surveyed and the number of respondents at each level.

TABLE 1

Number of respondents by degree level and amount of debt owed

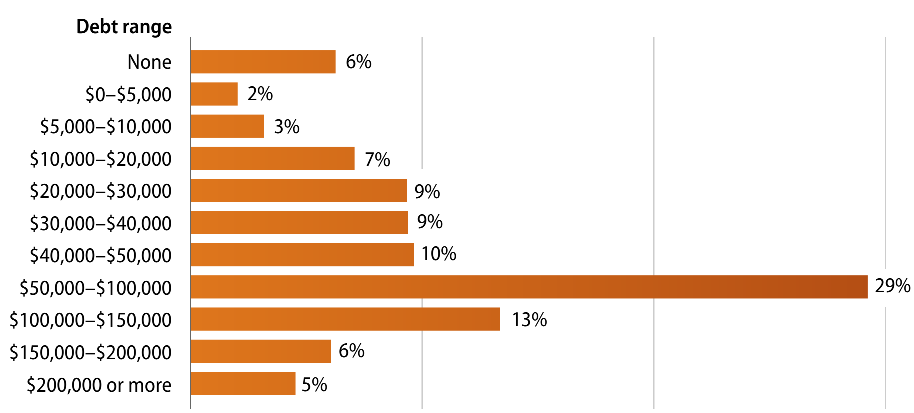
Level of education	Number of respondents	Low levels of debt, less than $10,000	Moderate levels of debt, $10,000–$30,000	High levels of debt, $30,000–$100,000	Very high levels of debt, more than $100,000
Some college	2,663	650	788	1,058	167
Associate's degree	2,016	366	634	935	81
Bachelor's degree	9,691	1,037	1,948	5,340	1,366
Master's degree	9,496	720	922	5,072	2,782
Professional degree	2,397	149	110	573	1,565
Ph.D.	1,423	211	104	418	690
Total	**27,686**	**3,133**	**4,506**	**13,396**	**6,651**

Source: Authors' analysis of survey responses.

The debt levels for people who responded to this survey are worrying, but they are likely higher than the debt levels of all former students. The Institute for College Access and Success estimated that 71 percent of all students from the class of 2012 who earned a bachelor's degree borrowed to finance their education, and the average amount of debt incurred was $29,400.[4] CAP's survey, which included graduates, nongraduates, and students at every education level, found that only 11 percent of borrowers had debt levels equal to or less than $10,000. At the other end of the spectrum, 24 percent of survey respondents had very high debt levels—more than $100,000. And 72 percent had high or very high debt levels—more than $30,000. (see Figure 1) This information provides an opportunity to understand the factors that people struggling with student-loan debt considered when they enrolled in college, as well as how their attitudes have changed over time.

FIGURE 1

Share of borrowers at each debt level



Source: Authors' analysis of survey responses.

Student borrowers at all debt levels now recognize the importance of college cost

The most significant takeaway from this analysis is that student borrowers paying back their loans weigh the importance of a college's cost more heavily now than they did when they were making their selection. Indeed, the more debt students hold, the more pronounced the gap is between weighing the importance of debt then and weighing the importance of debt now. Across all survey respondents, 24.6 percent of borrowers said that net price was one of their top five most important factors while they were selecting a college, and 60.3 percent of respondents said they would put it in their top five now. (see Table 2)

TABLE 2

Share of respondents who said cost was important both when choosing a college and now

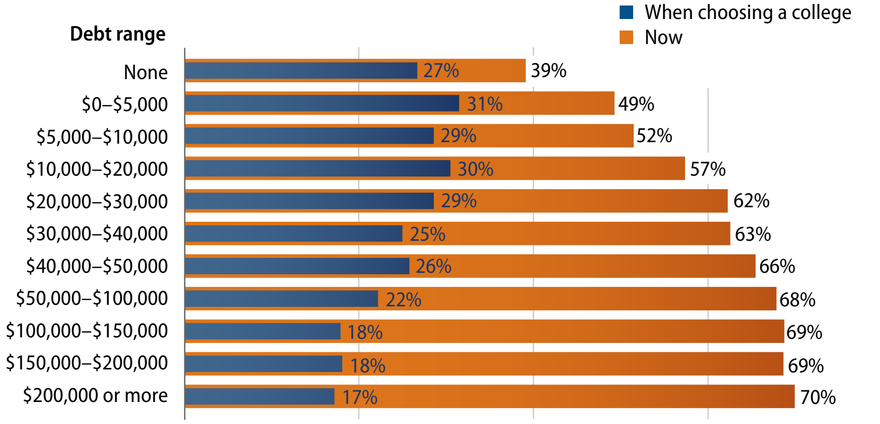
Debt owed	Percent at enrollment	Percent now
None	26.6%	39.1%
\$0–\$5,000	31.4%	49.3%
\$5,000–\$10,000	28.5%	51.5%
\$10,000–\$20,000	30.4%	57.4%
\$20,000–\$30,000	28.5%	62.3%
\$30,000–\$40,000	24.9%	62.6%
\$40,000–\$50,000	25.7%	65.5%
\$50,000–\$100,000	22.1%	67.9%
\$100,000–\$150,000	17.8%	68.8%
\$150,000–\$200,000	18.0%	68.7%
\$200,000 or more	17.1%	70.0%
All respondents	**24.6%**	**60.3%**

Source: Authors' analysis of survey responses.

The responses show those who are most likely and those who are least likely to consider net price as one of the most important factors in school selection. The students who accumulated the most debt were the least likely to put net price in their top five factors when they enrolled in college and the most likely to put it in their top five factors now. Students who accumulated the least amount of debt were the most likely to put net price in their top five factors while choosing a college and the least likely to put it in their top five factors now.

FIGURE 2

Share of respondents who said cost was important both when choosing a college and now



Source: Authors' analysis of survey responses.

It is notable that the more debt student borrowers hold, the less likely they are to have considered cost when enrolling in school. Only 18 percent of those who left school with very high levels of debt—more than $100,000—listed net price among their top five initial factors, while 28 percent of those with low levels of debt—less than $10,000—did so.

FIGURE 3

Share of respondents who considered cost when enrolling in college

Source: Authors' analysis of survey responses.

At every level of education and debt, more respondents put net price as a current top factor for choosing a college. The smallest percentage-point increase from the time of choosing a college to now was 12.6 percentage points for those with no debt; the biggest increase was 52.9 percentage points for those with more than $200,000 of debt. This difference suggests that those who did highly value the cost generally do not leave school wishing they had not. It is therefore important for lawmakers, educational leaders, and federal aid administrators to create a lending environment in which minimizing student-loan debt is the goal.

Present all student borrowers with a standardized shopping sheet to evaluate college cost

The Obama administration released its Financial Aid Shopping Sheet in July 2012, which was aimed at promoting college affordability by demystifying the debt students will incur when they enroll in a program.[5] The form communicates information related to financial aid and makes clear the difference between institutional aid, grant aid that does not have to be repaid, and the amount of student loans that will be required to meet educational expenses. In particular, it includes information about the potential monthly payments that students would have to pay if they enrolled in particular institutions. It is designed to help students compare potential debt levels and aimed at simplifying the cost information students and their families receive so it is easier for them to make informed comparisons among institutions.

The shopping sheet is a common-sense reform that will help incoming students easily understand potential debt. This type of information has been presented successfully in other contexts: For example, the Credit CARD Act mandated that credit card statements present standardized information on "how long it would take [users] to pay off the card if they made only minimum payments—and how much interest they would be charged."[6]

However, some institutions have resisted. Inside Higher Ed reported that some colleges consider the shopping sheet to be too "one-size-fits-all."[7] A standardized approach to financial aid award letters would provide exactly the change needed. It is critical that students considering multiple institutions understand the differences between financial aid offers before accepting one. It is also important that students understand how much of their aid package has to be repaid. Currently, 2,072 institutions have voluntarily adopted the U.S. Department of Education's Financial Aid Shopping Sheet.[8] Undergraduate students at these institutions represent 47 percent of total enrollment at the undergraduate level; this level of participation is a great start, but it is not enough.

The Financial Aid Shopping Sheet should be mandatory for institutions that participate in federal student-loan programs. This recommendation is not new: CAP first called for this urgently needed reform in its 2011 report, "New Financial Aid Award Letters Should Be Mandatory: They Need to Be Comparable to Be Effective."[9]

Standardize student loans to make repayment plans affordable

Most borrowers are working hard to responsibly make their monthly payments, but many still struggle with burdensome debt. On June 9, President Barack Obama announced steps his administration is taking to make student debt easier to repay and college more affordable and accessible.[10] His plan would expand the Pay As You Earn, or PAYE, plan to all direct-loan borrowers, which would provide approximately 5 million people with relief by capping their payments at 10 percent of their monthly incomes. After 20 years of payments, any balance that remains will be forgiven. The goal of President Obama's announcement is to make this expanded eligibility available to borrowers by December 2015.[11]

PAYE promises to keep student debt manageable for the borrowers who are eligible, but repayment options for all student-loan borrowers need to be enhanced. To date, no borrower enrolled in the PAYE plan has reached the 20-year threshold for loan forgiveness.[12] To ensure that people are not burdened at the back end, loan forgiveness should not be subject to federal income tax.

Conclusion

Many analyses, including this one, show that student-loan debt is a problem, but it is clear that college is well worth the financial investment.[13] Student borrowers are working hard to better their economic circumstances through education, but the choices they make about where to attend school and how much to borrow have lasting effects. It is critically important to intervene at the enrollment point so that students know the impact of taking out loans, as well as to foster a culture at higher-education institutions that minimizes student-loan debt. It is also important to focus on making repayment more affordable.

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Endnotes

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3 Ibid.

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5 Cecilia Muñoz, "New 'Shopping Sheet' Will Make It Easier for Students to 'Know Before They Owe,'" The White House Blog, July 24, 2012, available at http://www.whitehouse.gov/blog/2012/07/24/new-shopping-sheet-will-make-it-easier-students-know-they-owe.

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11 Ibid.

12 Ibid.

13 The Domestic Policy Council and the Council of Economic Advisors, *Taking Action: Higher Education and Student Debt* (The White House, 2014), available at http://www.white-house.gov/sites/default/files/docs/student_debt_report_final.pdf