Insight on the Issues

The Student Loan Debt Threat: An Intergenerational Problem

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- ✓ **Student loan debt is an intergenerational problem, burdening borrowers of all ages and threatening the long-term financial security of millions of families.**
- ✓ **While student loan balances have increased across all age groups, growth has been greatest for older borrowers.**
- ✓ **Defaults of student loans increase with age of the borrower.**
- ✓ **Parents and grandparents take on debt to help their children and grandchildren finance their education, AARP survey research found.**
- ✓ **The AARP survey found that 25 percent of private student loan cosigners ages 50 and older had to make a loan payment because the student borrower failed to do so.**

INTRODUCTION

Student loan debt is increasingly becoming a burden for people of all ages, with Americans owing $1.5 trillion dollars as of December 2018. People ages 50 and older owe 20 percent, or $289.5 billion, of that total, up from $47.3 billion in 2004. This represents more than a five-fold increase (figure 1).[1] The overall increase reflects a sharp rise in both the number of families borrowing and the amounts they borrow.

Historically, people tended to incur debt at younger ages—to pay for their college education and buy homes—and then paid the debt off during their working years. This enabled them to enter retirement debt-free and gave them a better chance of obtaining and retaining financial security as they aged.

Over the past three decades, however, the life cycle of debt has changed dramatically. The full cost[2] of attending college has increased substantially during this period, with the average cost of a four-year higher educational institution more than doubling on an inflation-adjusted basis.[3] Meanwhile, nationally, state and local funding per student for higher education has decreased.[4] In addition, family incomes have not increased enough to keep pace with inflation, much less the increase in college costs.

As a result, more students are taking on greater amounts of student loan debt than in the past. This creates a large repayment burden, which squeezes budgets of young families and, in many cases, impedes and delays their ability to save for a home or for other purposes such as retirement. Over the life course, families have more student loan debt at younger ages and carry the debt with them for longer periods.

The increased debt burden reaches beyond the young adult who takes out a student loan. In many families, parents, grandparents, and other

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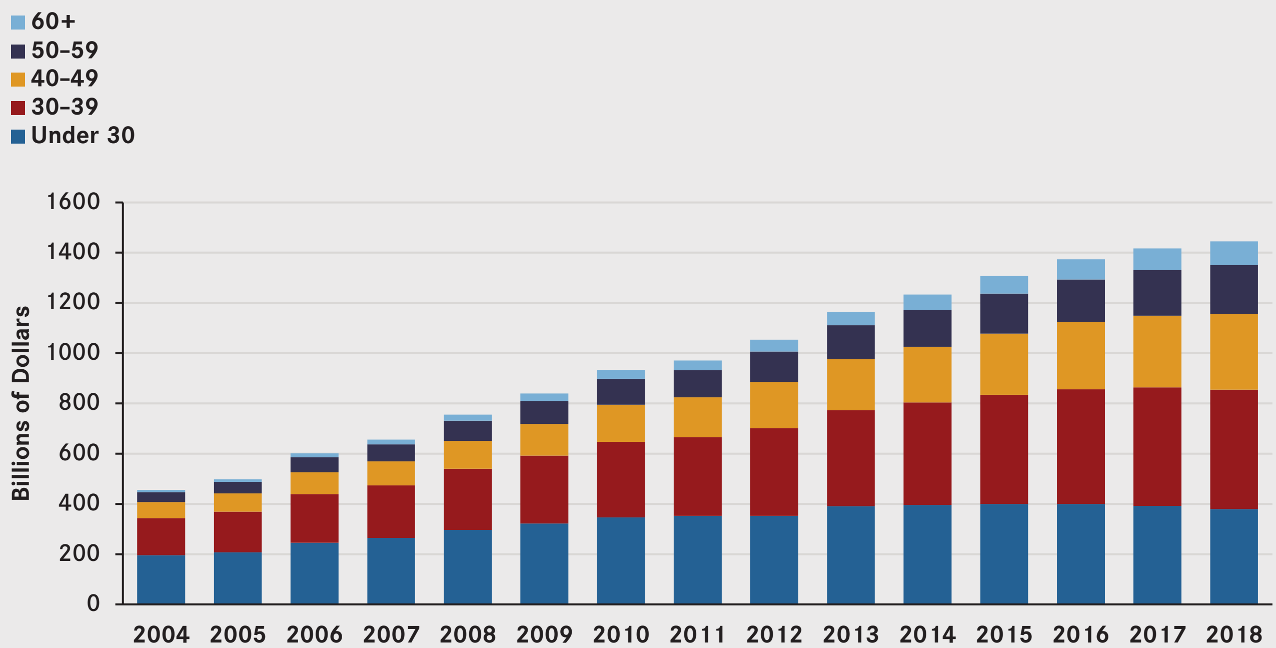
FIGURE 1
Total Student Loan Debt By Age Group *(in 2018 dollars)*



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

relatives are taking on debt to help finance a family member's education. This includes taking out loans directly or cosigning loans for students who cannot qualify on their own. Given that cosigners are responsible for making loan payments when the borrower fails to do so, a seemingly simple secondary signature can ultimately create financial hardship for an older cosigner who never expected to be saddled with such payments. Compounding the problem is that many older borrowers in or near retirement often face their own debt burdens, most often from a mortgage or credit cards.

The increase in student loan debt today is an intergenerational problem, burdening borrowers of all ages and threatening the long-term financial security of millions of families. A recent AARP survey conducted with the Association of Young Americans found that across generations student loan debt is impeding many Americans' ability to save money to buy a home or car or save for retirement.[5] Notably, millennials and generation Xers also said their student loan debt has prevented or delayed their ability to save for their children's education. This inability to save increases the likelihood they will need to borrow when the time comes for their children to attend college, thus perpetuating the intergenerational student loan debt cycle.

HOW FAMILIES FINANCE COLLEGE EDUCATION

Families finance college in a number of ways, including through debt, savings, and income. The use of debt to finance education has grown during the past few decades, particularly for older families. In 1989, 3.1 percent of families headed by someone age 50+ carried student loan debt, owing an average of $10,073.[6] In 2016, 9.6 percent of families headed by someone age 50+ carried student loan debt, with the average amount owed more than tripling to $33,053.[7]

During the 2017–18 academic year, borrowing—by parents and students—accounted for nearly one-quarter (24 percent) of funding the cost of college.

Parent contributions through income and savings accounted for 34 percent (figure 2).

Overall, parents (through savings, income, and borrowing) contributed the most toward a typical undergraduate education, followed by grants and scholarships at 28 percent and student contributions (savings, income, and borrowing) at 27 percent.[8]

Another way to analyze college funding is to examine the frequency with which various funding sources are used. Sixty-six percent of families used parent income and savings to help pay for college in 2017–18.[9] Notably, included within the parent savings category are retirement savings withdrawals; 8 percent of families took out a withdrawal from their retirement savings plan to pay for college.[10]

Parents in 22 percent of families borrowed: 13 percent took out Parent PLUS loans (offered by the federal government directly to parents), 9 percent took out private student loans, 8 percent used credit cards, and 4 percent took out a retirement account loan.[11]

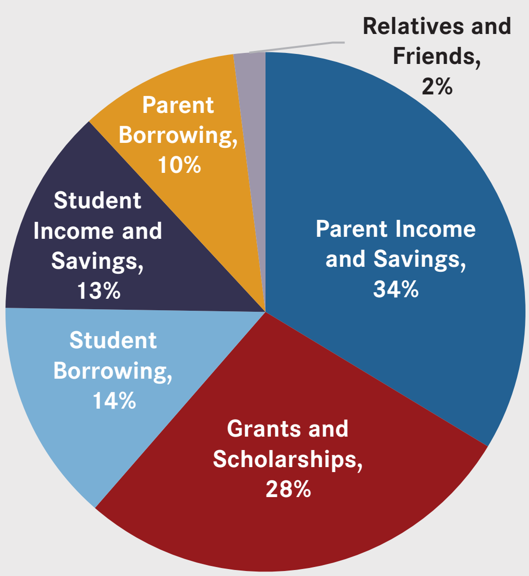
RELATIVE SIZE OF STUDENT LOAN DEBT VERSUS TOTAL CONSUMER DEBT

As of fourth quarter 2018, American consumers owed over $13.5 trillion in total debt, $9.5 trillion (70 percent) of which was mortgage/home equity debt (figure 3). Student loan balances totaled $1.5 trillion and accounted for 11 percent of total consumer debt. Although student loan debt has increased over time for older borrowers, mortgage debt remains the largest type of debt they hold. Mortgage debt accounts for 76 percent of consumer debt of people ages 50+ while student loan debt accounts for only 5 percent. In contrast, for people ages 18–29, student loan debt accounts for 38 percent of their consumer debt and mortgage debt accounts for 37 percent. The share of student loan debt as a percentage of total debt decreases with age.

STUDENT LOAN DEBT BALANCES ARE INCREASING SHARPLY

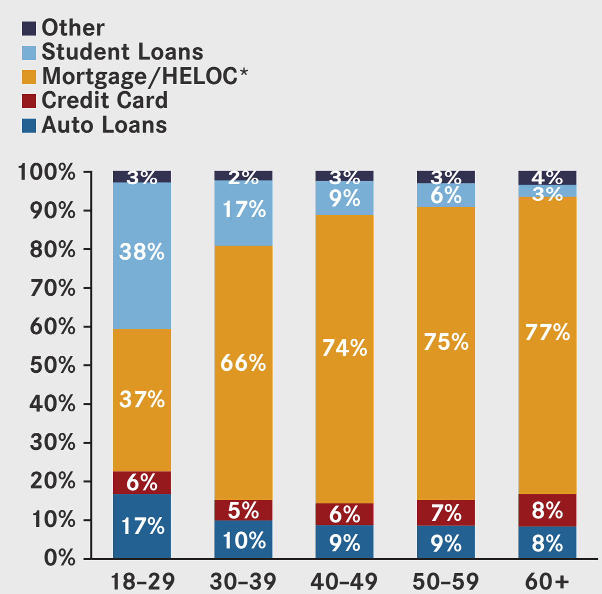
Over the past 15 years, growth in student loan debt has outpaced growth of all other types of consumer

FIGURE 2
Percentage of College Cost Funded by Source for Academic Year 2017–2018



Source: Sallie Mae, "How America Pays for College 2018," Sallie Mae Bank, Newark, DE 2018, www.salliemae.com/HowAmericaPaysforCollege.

FIGURE 3
Percentage of Consumer Debt by Type and Age Group, Q4 2018



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

**HELOC is a home equity line of credit.*

debt. Outstanding student loan debt in the United States more than tripled, totaling $1.5 trillion as of fourth quarter 2018, up from $455.2 billion in 2004.[12]

Of the $1.5 trillion of outstanding student loans, approximately $1.4 trillion are federal loans and $119.3 billion are private student loans.[13] Federal loans include subsidized and unsubsidized loans (Stafford and Direct loans), Parent PLUS loans and Graduate PLUS loans, and Perkins Loans. Private loans include nonfederal loans from banks, credit unions, and other private lenders, including some states and postsecondary institutions. Private student loans have fewer borrower protections than federal loans and do not include the option of repaying through income-based repayment plans.[14]

Although student loan balances have grown across all age groups, the growth has been greatest for older borrowers. Aggregate student loan balances of borrowers ages 50 and older increased 512 percent (inflation adjusted), from $47.3 billion in 2004 to 289.5 billion in 2018 (figure 4). Approximately 8.4 million borrowers are ages 50+.

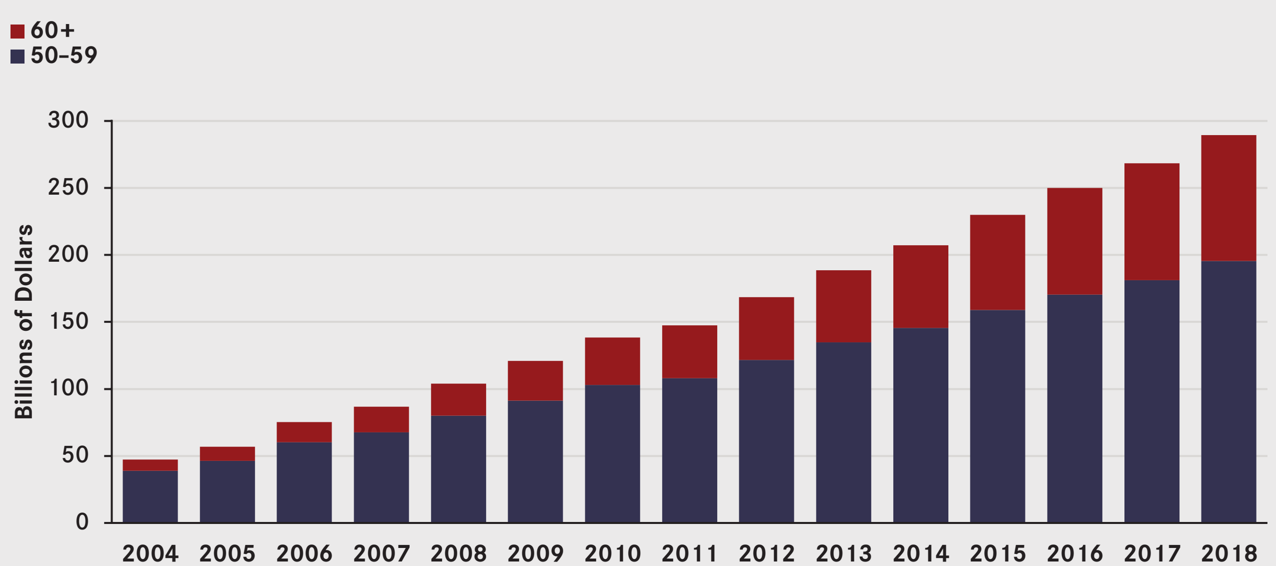
DEFAULTS HAVE SERIOUS CONSEQUENCES FOR OLDER BORROWERS

Data on delinquencies (i.e., being late on a payment) and defaults are one way to demonstrate the toll that student loan debt burdens are placing on families of all ages. Aggregate student loan data from the Federal Reserve Bank of New York found that 11.4 percent of student loans were 90+ days delinquent or in default (i.e., more than 270 days delinquent)[15] as of fourth quarter 2018.

As of second quarter 2018, 7 million (17 percent) federal student loan borrowers were in default status for nonpayment.[16] The total balance of defaulted loans was $130.3 billion dollars (11 percent of outstanding loan balances).

The federal government can take a number of actions to collect from borrowers who default on their federal student loans. The Treasury Offset Program allows the Treasury to offset certain federal or state payments owed to the borrower, such as federal or state income tax refunds and a portion of Social Security retirement or disability benefits. The Department of Education can also require the borrower's employer to garnish a portion

FIGURE 4
Total Student Loan Debt Borrowers Ages 50+ *(in 2018 dollars)*



Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

of the borrower's pay. A final action could involve litigation against the borrower.[17]

Data on student loan defaults by age are not widely available. Data compiled by the Government Accountability Office (GAO) found that federal student loan borrower defaults increase with age.[18] GAO examined both student loan debt of the borrowers and their Parent PLUS loans. In 2015, there were 870,000 borrowers ages 65+, 37 percent of whom were in default; 5 percent of those in default were subject to offset of federal payments.[19] Approximately 29 percent of the 6.3 million borrowers ages 50–64 were in default, of which 3 percent were subject to offset. There were 37.4 million borrowers under age 50, 17 percent of which were in default, and 2 percent of those in default were subject to offset.

MOST BORROWERS AGES 50+ CARRY DEBT FROM THEIR OWN EDUCATION

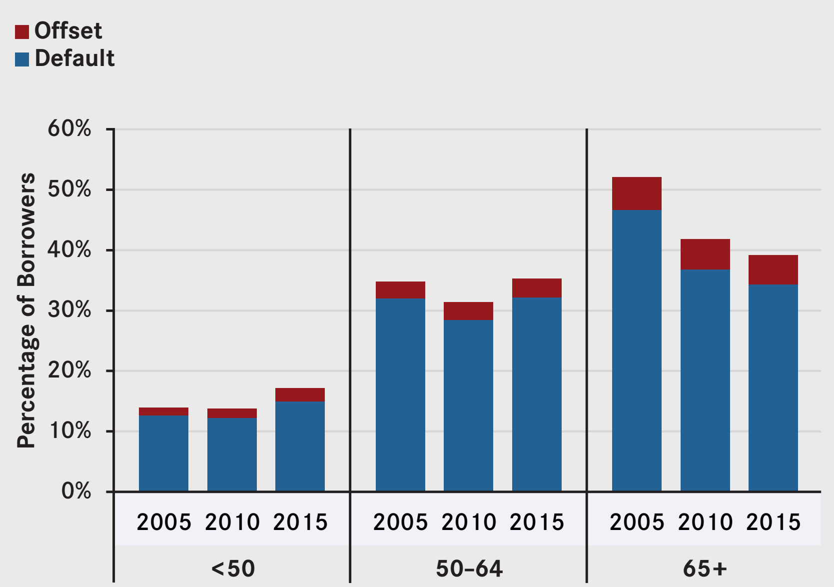
Most older borrowers hold loans taken out for their own education rather than for their children's education. In 2015, 5.3 million student loan borrowers ages 50 and older had outstanding federal student loan balances for their own education, compared with approximately 2.2 million Parent PLUS borrowers ages 50 and older.[20] Default rates for both types of loans have increased with the age of the borrower (figures 5 and 6).

PARENT PLUS LOAN DEFAULTS ARE INCREASING

Parent PLUS loans allow parents and guardians to take out a loan directly from the federal government to cover up to the full cost of attendance for their child or guardian. Prior to 1992, Parent PLUS loans were capped at $3,000 per academic year and had an aggregate limit of $15,000. PLUS loan limits were removed in 1992, so parents are now allowed to borrow up to the full cost of attendance.[21] Although Parent PLUS loans require a credit history check, they are not underwritten to ensure that borrowers can afford to repay them. This can result in unaffordable loans that lead to default, especially considering that parents' incomes are likely to go down upon entering retirement.

As of 2015, default rates were higher for other federal student loans (figure 5) than for Parent PLUS loans (figure 6). However, this may change in the future as more parents take out higher amounts of Parent PLUS loans. Research examining Parent PLUS loan performance indicates that parent defaults have increased in recent years and repayment rates have slowed.[22] For many families, the amount they owe increases over time because they are not paying enough to cover interest and pay down principal. This can occur when

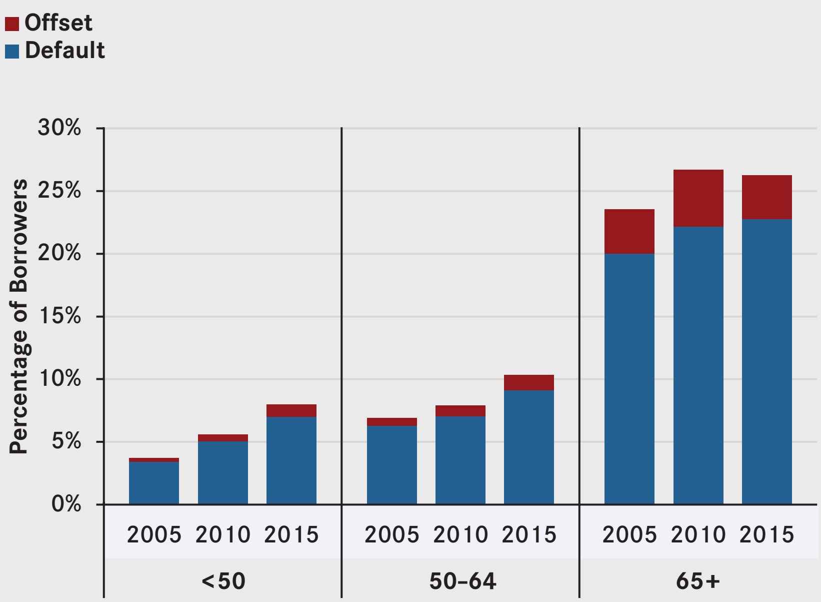
FIGURE 5
Percentage of Student Loan Borrowers in Default and Offset by Age Group: 2005, 2010, 2015



Source: AARP Public Policy Institute analysis of US Government Accountability Office, "Social Security Offsets, Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief," GAO-17-45, US Government Accountability Office, Washington, DC, December 2016, 60–61.

Note: Chart data are for borrowers' federal student loans for their own education.

FIGURE 6
Percentage of Parent Plus Borrowers in Default and Offset: 2005, 2010, 2015



Source: AARP Public Policy Institute analysis of US Government Accountability Office, "Social Security Offsets, Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief," GAO-17-45, US Government Accountability Office, Washington, DC, December 2016, 60–61.

Note: Chart data are for borrowers' Parent PLUS loans taken out for their children or guardians' education.

a loan is in deferment or forbearance or for some borrowers who are in income-based repayment plans.[23]

AARP SURVEY EXAMINES TAKING ON STUDENT LOAN DEBT ON BEHALF OF OTHERS

AARP conducted a survey of adults ages 40 and older to better understand the experiences of those who have taken on debt to help someone else pay for college and other post–high school education.[24] The survey includes only individuals who have not yet fully paid off the debt or who have paid it off within the past five years. For further details regarding the survey methodology, see the Methodology box on page 9.

WHO SURVEY RESPONDENTS HAVE HELPED

Overall, respondents of all ages were most likely to help their children with paying for college. Of people ages 50 and older, 80 percent helped a child, compared with 6 percent who helped a spouse or partner, 8 percent who helped a grandchild, and an even smaller percentages who helped other relatives or friends.

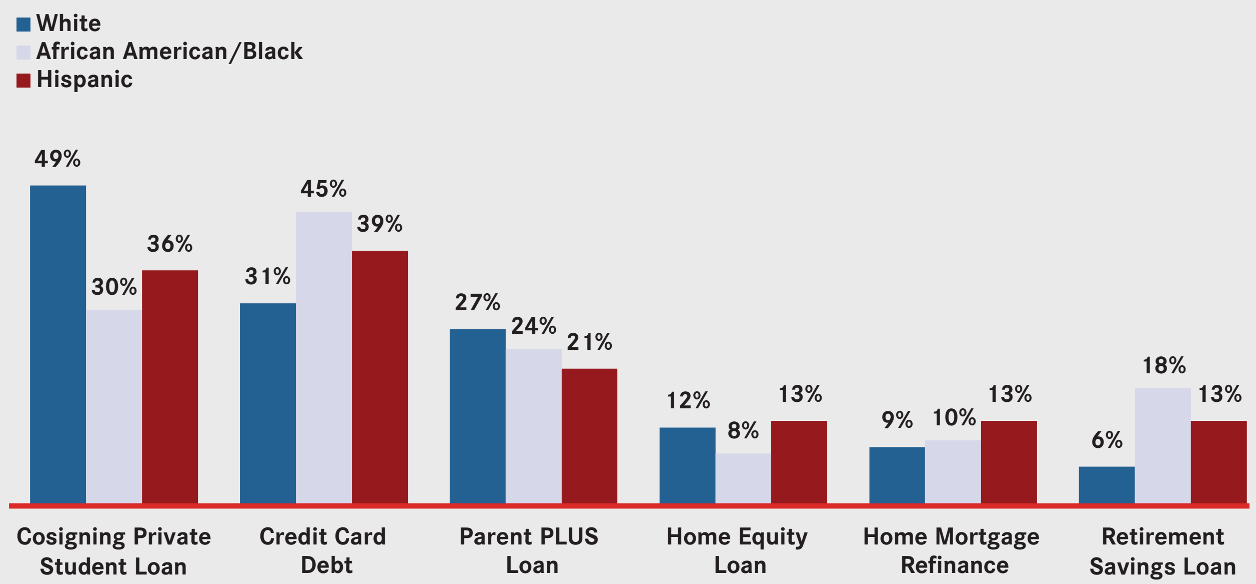
The survey showed differences by race/ethnicity[25] and age.[26] For both age groups (ages 40–49 and 50+), Whites were significantly more likely than African Americans/Blacks and Hispanics to take on debt to help a child finance his or her college education. African Americans/Blacks were more likely to pay for a grandchild or niece/nephew than Whites (figure 7).

TYPES OF DEBT USED TO FINANCE SOMEONE ELSE'S COLLEGE EDUCATION

As has been referenced throughout this paper, people rely on various types of debt to help someone else pay for college:

- Parents or guardians are able to take out Parent PLUS loans directly from the federal government to finance up to the full cost of attendance.
- Those with good credit and the ability to repay a loan can cosign a student's private loan. Cosigners are needed when the primary borrower cannot demonstrate the ability to repay a loan, which is often the case for students. Cosigners are required to make payments on the loan if the primary borrower fails to do so.
- People can also take out other types of debt, such as running a balance on a credit card, borrowing from a home equity line of credit, refinancing a home and taking out cash, and taking a loan against retirement savings such as that in a 401(k) account.

FIGURE 8
Ways People Borrowed to Finance the Cost of College for Someone Else Ages 50+ by Race/Ethnicity

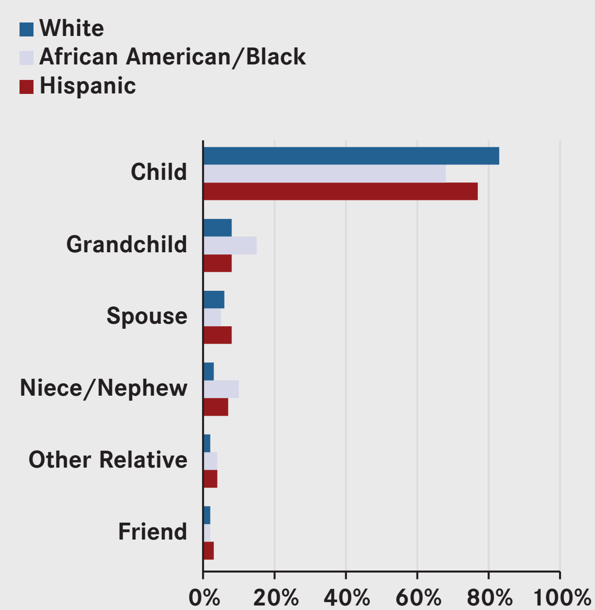


Source: AARP Survey of College Debt on Behalf of Others.

The survey showed that the most common debt type used by respondents ages 50 and older was cosigning a loan (45 percent), followed by running a balance on a credit card (34 percent) and taking out a Parent PLUS loan (26 percent). Other forms of borrowing were less common, with only 12 percent of people in this age group taking out a home equity loan, 10 percent refinancing their home, and 8 percent taking out a loan against their retirement savings.

The survey also revealed differences in forms of borrowing by race and ethnicity. In both age groups (40–49 and 50+), Whites were significantly more likely to cosign a private student loan than African Americans/Blacks or Hispanics. For example, of respondents ages 50 and older, 49 percent of Whites had cosigned a private student loan, compared with 30 percent of African Americans/Blacks and 36 percent of Hispanics (figure 8). Whites ages 50 and older were also significantly more likely to take out a Parent PLUS loan. Conversely, African Americans/Blacks and Hispanics ages 50 and older were more likely than Whites to take on credit card

FIGURE 7
Who Respondents Ages 50+ Helped by Race/Ethnicity



Source: AARP Survey of College Debt on Behalf of Others.

debt or take a loan against their retirement savings account.[27]

COSIGNING PRIVATE STUDENT LOANS

Those who cosign a private student loan are required to make payments only when the primary borrower (typically the student) is unable to do so. The AARP survey found nearly half—49 percent—of all borrowers ages 50 and older who cosigned a loan made a payment on the loan. Some cosigners made payments to help the primary borrower rather than because they were required to make a payment. Only 25 percent of all cosigners ages 50+ had to make a payment because the borrower failed to do so.

African Americans/Blacks ages 50 and older were more likely than Whites to make a payment for any reason (65 percent and 47 percent, respectively). There were no significant differences with Hispanics, 56 percent of whom made payments.

Regarding specific reasons why a cosigner made a payment, comparison between cosigners ages 50 and older by race/ethnicity are not available due to small sample size. However, the overall sample, which includes cosigners ages 40 and older, is large enough to make comparisons by race/ethnicity. African Americans/Blacks (63 percent) and Hispanics (62 percent) ages 40 and older were significantly more likely to make a payment on a loan for which they were a cosigner than Whites (49 percent). Forty-two percent of African Americans/Blacks and 38 percent of Hispanics ages 40 and older were also significantly more likely than Whites (24 percent) to do so because the primary borrower did not make a payment.

Most private student loans also allow cosigners to apply to be removed from the loan if the primary borrower makes a series of on-time payments (usually one to three years) and has a good credit score. Doing so is in the cosigners' interest because they will no longer be legally liable for the loan if the primary borrower defaults in the future. However, awareness of this option appears to be an issue. Of borrowers ages 50 and older, 71 percent did not know they could request to be removed from the loan, with no significant differences by race. This implies that some cosigners who may be able to be removed from the loan do not do so because they lack key information—which may unnecessarily put the financial security of such cosigners at risk.

PARENT PLUS LOANS

The survey asked the one-quarter of survey respondents ages 50 and older who had taken out a Parent PLUS loan and who had made a payment over the prior five years whether they ever had any difficulty making payments. Researchers considered signs of difficulty to include one or more of the following: making at least one late or partial payment, missing at least one payment, and contacting the servicer about lowering the monthly payment. Overall, nearly one-third (32 percent) of people ages 50 and older exhibited at least one sign of difficulty. Among people ages 50 and older, there were significant differences by race. African Americans/Blacks and Hispanics were significantly more likely to exhibit signs of distress (46 and 49 percent, respectively) than Whites (29 percent).

In contrast, 44 percent of Parent PLUS borrowers ages 50+ did not have difficulty, but rather were able to pay more than their required payment or make an extra payment. There were no significant differences by race/ethnicity.

CONCLUSION

Student loan debt is an intergenerational problem. It is important for stakeholders, from policy makers to members of the public, to be aware of the long-term financial implications of this debt. Carrying large amounts of student loan debt at younger ages displaces the ability to save and build wealth. Repayment periods required to pay off the debt are longer today—now often 20 or 25 years, double the repayment period of prior generations. As a result of these higher balances and longer-duration loans, parents and grandparents who borrow or cosign often sacrifice their own financial security in retirement. Increasingly, borrowers are defaulting on their loans and facing wage garnishment and offsets of their federal tax refunds or Social Security payments.

A number of available policy solutions can help families before they take on student loan debt. Most importantly, federal and state policy makers should increase public investment in higher education and provide robust oversight to facilitate cost containment.

Other policy solutions can help borrowers manage student loan debt they owe. The following are some recommended solutions:

- Encouraging the use of uniform financial aid award letters so they are comparable among schools. The letters should be clear and break down grant aid (that decreases the total amount owed) and loan aid that will ultimately need to be repaid.
- Requiring student loan servicers to increase transparency for both federal and private student loans. Servicers should be required to provide private student loan cosigners with monthly statements and other loan information. Servicers should also streamline the process for enrolling eligible federal borrowers in public service loan forgiveness and income-driven repayment plans. Better communication of repayment options would help borrowers manage their debt.
- Allowing federal Parent PLUS borrowers to enroll directly in income-driven repayment plans. Currently, Parent PLUS borrowers cannot do so directly; they must first consolidate their federal loans. Once consolidated, they can enroll in the least generous (for most people, this means a higher monthly payment) of the various income-driven repayment plans.
- Allowing all federal borrowers to enroll in income-driven repayment plans (and if qualified, public service loan forgiveness) while in default.
- Expanding the circumstances in which student debt is dischargeable in bankruptcy, such as for loans that do not provide access to income-based repayment options, private loans that lack death or disability discharges, and loans taken out for schools with documented histories of engaging in unfair, deceptive, or abusive acts and practices.
- Prohibiting offsets of Social Security benefits and other federal payments, such as income tax refunds, to collect federal student loan debt. Borrowers are increasingly falling into default on their student loans at older ages. Social Security is a lifeline for many borrowers and the offset often sends them into poverty.

This paper touches on only some of the issues that are part of the student loan debt story. Other issues worthy of future discussion include the rising cost of a college education, repayment plans and options, and other potential solutions to help borrowers manage their student loan debt.

Survey Methodology: AARP Survey of College Debt on Behalf of Others

The survey was conducted online in August 2017 by GFK using the GFK KnowledgePanel®. The survey was fielded among a sample of adults ages 40 and older who have education-related debt for college or other post–high school education on behalf of someone else. The study includes only individuals who have not paid off the debt or have paid it off within the past five years. The sample consist of 3,319 adults ages 40 and older, including 838 non-Hispanic African Americans, 860 Hispanic/Latinos, and 1,117 ages 60 and older. The survey was offered in English and Spanish. Data are weighted by age, race/ethnicity, and gender to represent the general population of Americans ages 40 and older. The overall margin of error is +/- 2.2% at the 0.95 confidence level. The margin of error may be larger for various subgroups.

1 Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit Report, 2018: Q4 (Released February 2019). Dollar amounts have been inflation adjusted to 2018 dollars using the CPI-U, the consumer price index for all urban consumers.

2 These costs include tuition, fees, and room and board, as well as other costs such as books, computers, and supplies.

3 Joseph Valenti, "A Look at College Costs across Generations," AARP Public Policy Institute, Washington, DC, May 2019.

4 SHEEO State Higher Education Finance: FY 2017, State Higher Education Officers Association, Boulder, CO, 2018. http://www.sheeo.org

5 https://press.aarp.org/2018-9-13-Rising-Student-Loan-Debt-Prevents-Saving

6 AARP estimates based on the Federal Reserve Board 2016 Survey of Consumer Finances; mean dollar figures adjusted to 2016 dollars.

7 Ibid.

8 These percentages are based on a composite of all funding sources available. Source: Sallie Mae, "How America Pays for College 2018," Sallie Mae Bank, Newark, DE 2018, http://www.salliemae.com/HowAmericaPaysforCollege.

9 Ibid.

10 Ibid.

11 Ibid.

12 Balances shown in inflation adjusted to 2018 dollars using the CPI-U.

13 Private student loan estimate is from "The MeasureOne Private Student Loan Report," San Francisco, CA, December 20, 2018, (Reporting as of September 30, 2018), 7, www.measureone.com. Federal student loan balance derived from Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit Report, 2018: Q4 (Released February 2019).

14 One benefit of private student loans is that they are not subject to Social Security and government payment offset.

15 Federal student loans are transferred to default collection when no payment has been received for 360 days.

16 Trends in Student Aid 2018, The College Board, New York, NY, 2018, page 20.

17 US Government Accountability Office, "Social Security Offsets, Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief," GAO-17-45, US Government Accountability Office, Washington, DC, December 2016, 4.

18 Ibid, 10.

19 There are limits on the amount Treasury can offset from monthly federal benefit payments. The amount of allowable offset is the lesser of 15 percent of the federal monthly benefit amount, the amount by which the benefit payment exceeds $750 per month, or the outstanding amount of the debt. See GAO-17-45 for more information.

20 Ibid, 60–61.

21 Rachel Fishman, "The Parent Trap Parent PLUS Loans and Intergenerational Borrowing," New America Education Policy Program, Washington, DC, January 2014, 2.

22 Adam Looney and Vivien Lee, "Parents Are Borrowing More and More to Send Their Kids to College—and Many Are Struggling to Repay," Brookings Institution, Washington, DC, November 27, 2018, https://www.brookings.edu/research/parents-are-borrowing-more-and-more-to-send-their-kids-to-college-and-many-are-struggling-to-repay/.

23 Deferment or forbearance allows one to temporarily stop making payments or to temporarily reduce his or her monthly payment amount for a specified period. Some federal loans accrue interest during deferment, while some do not. All federal loans accrue interest during forbearance. https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance.

24 The AARP survey included college and other postsecondary education programs. Throughout this section discussing survey results, the term *college* includes both. Also, throughout this section, discussion of differences means that the differences are statistically significant at the 95% confidence level.

25 We examined respondents who self-identified as White, African American/Black, or Hispanic.

26 We examined the following age groups: 40–49 and 50 and older.

27 The exception was ages 40–49. In this age group, Hispanics were not significantly more likely than Whites to take out a loan against their retirement savings. In addition, there were no significant differences by race/ethnicity for taking on credit card debt.

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