



# Laura Gilbert, Enterprise Human Resource division of the State of Minnesota

## Student Debt: What are the Possible Long Term Economic Consequences?

A Civic Caucus Focus on Competitiveness Interview

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### Present

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### Summary

The student-loan crisis is predicted to be the next big financial crisis, says Laura Gilbert, a writer and speaker on financing higher education and a consultant for families facing college-financing decisions. Nationally, the number of people with student loans increased by 70 percent from 2004 to 2013, so that the country as a whole now has \$1.1 trillion in student-loan debt. \$155 billion of that debt is held by people aged 50 or older. In 2012, 70 percent of Minnesota undergraduates had student loans, with an average debt of \$31,500, the fourth highest in the nation.

But the major problem, Gilbert says, is that student loans amount to only 18 percent of the cost of college. While 30 percent of college costs are paid by grants and scholarships, over half the costs are paid by parent loans, student income and savings, parent income and savings, and friends and relatives. Gilbert notes that because of that, college debt is a much bigger problem than the \$30,000 debt facing a college graduate at age 22 and a much bigger problem than unprecedented tuition increases.

She recommends ideas for dealing with the existing student-loan debt and a new framework for approaching college funding that could help reduce future debt. Among the ideas are looking at tax and business-friendly opportunities to pay down college debt, considering lemon laws for students

who were misled about the quality of a program and are now deeply in debt, and encouraging families and prospective students to borrow no more in student loans than a low-end, entry-level salary can comfortably support and to avoid debt that could affect major adult life choices.

## Biography

Laura Gilbert is a consultant and policy analyst for the Enterprise Human Resource division of the State of Minnesota, a position she has held since March 2014. Since 2008, she has been a professor in Concordia University-St. Paul's evening undergraduate and graduate business programs. Between 1991 and 2002, she was human resource director for Minnesota Educational Computing Corporation and J3Learning, served as vice president of organizational effectiveness for the ELCA Board of Pensions, and provided transition and change management consulting to nonprofit, public, and private companies. Following law school, she worked in data privacy and security for Best Buy, the law firm of Redgrave Daley Ragan and Wagner, and the University of Minnesota.

Outside the workday, Gilbert combines her professional expertise and passion for higher education as a speaker, writer and consultant for families facing college-financing decisions. She is the author of three books: *Back to School for Grownups*, *Graduate School on a Budget*, and *How to Save \$50,000 on College*.

Gilbert has a master's in Industrial Relations and a PhD in Educational Psychology, where she researched factors that contribute to college degree attainment for college-bound, traditional-aged students. She also holds a J.D. from Hamline University's School of Law.

## Discussion

**Laura Gilbert discussed three specific aspects of the student loan debt crisis: (1) How did this crisis happen? What is driving student debt levels? (2) Is the crisis as bad as it seems? And (3) how can we recover from the current national student-debt burden?**

### **1. Drivers of student debt.**

**There has been a fundamental shift over time that impacts the standard cost/benefit analysis for a higher education.**

- In the pre-1980s, said Gilbert, undergraduate school provided the foundation for a lifetime career (generally a white-collar career). An accounting major was likely to find an accounting position with growth potential shortly after graduation. Student loans were minimal in comparison to today and ran for 10 years or fewer. It was an investment that paid off over a lifetime.
- From the early 1980s into the early 2000s, a shift occurred, she said. Higher education became a foundation on which to build a career *path* over a lifetime. The expected outcome was that a degree provided choices. An accounting graduate might be hired as an accountant or a business analyst, sales representative, or something else. Whatever the job title, a white-collar position was generally available following graduation. As companies began to seek college graduates to fill more and more entry-level or administrative positions, a college degree was a

"backstage pass" to get a foot in the door and to move up. Student loans typically lasted 10 to 15 years, but the return on that investment was expected over a lifetime.

- Today, higher education is often the initial step toward the first of many careers, Gilbert said. New grads may or may not locate a job related to their degree before loan payments begin. Student loans may last for 20 years or more, long after the student has returned to school to change careers (predicted to occur every seven to 10 years). Thus, the cost/benefit analysis of an undergraduate degree can no longer be viewed linearly, that is, as one investment that pays off over a lifetime. In contrast, today's student is likely to make multiple educational investments throughout his or her lifetime, while paying off overlapping, long-term student loans.

**More and more employers are demanding college degrees for jobs that don't necessarily require them.** Many graduates move into jobs where the salaries don't support the debt the student has incurred.

**While there are many drivers of student loan debt, a few examples include the following:**

**Schools are seeing higher expectations from parents and students about non-academic offerings.** Around 2002, college administrators witnessed a shift in family expectations, as helicopter parents started sending their kids to school and demanding restaurant-quality food options, upscale living selections and top-of-the-line sports and recreational facilities. "It was no longer just about school," Gilbert said. "Fulfilling those expectations had a significant impact on the cost of college."

**There is increased student and parent tolerance to allow students to repeat courses and to take six or more years to graduate, rather than four years.** A lot of the data on graduation rates, she said, is based on six years now, not four. "That can increase cost (and loans) as much as 50 percent," she said.

**The economy crashed, which sent many people back to school, some of whom saw school as a way to obtain student loans to pay their rent and survive.** Adults with clear educational goals often borrowed extra money to pay for family responsibilities.

**There are transparency issues with data from schools on total costs, resulting in surprise expenses.** This can lead to more loans to pay for unexpected expenses, Gilbert said.

**Reports on average student-debt loads often fail to include private loans and other means of funding an education, such as credit-card debt, second mortgage or home-equity loans, or personal loans from friends or family .**

**There is a national push for access to higher education by under-represented groups.** While this is essential for society and the right thing to do, there hasn't been a parallel push to train first-in-family students on how to make good financial decisions, such as which college to choose or which major to select, Gilbert said. Consequently, she noted, these students can be a target for low-quality schools with high debt rates.

**As the cost of higher education has risen at an unprecedented rate, there appears to have also been an increase in the personal obligation parents feel to send their child to the best school**

**he or she can get into, no matter the cost.** Gilbert has spoken with a number of middle-class families who have borrowed \$70,000 to \$100,000 to allow their children to "fulfill their dreams." Unlike parents from decades past, who may have wanted that for their children, today's parents tend to believe they *must* provide their child with the best possible education. Unfortunately they have realized too late that the "best" might have been a degree without a 20-year debt drag on the family.

**With the goal of making the U.S. a global competitor, politicians are pressuring states to increase the number of adults with college degrees by 2020.** Although conceptually worthy, this goal has offered a great marketing sound bite for the lesser programs with low entry requirements and large average debt loads, Gilbert said.

**In the past 15 years the for-profit higher-education industry has expanded to compete for working adult learners and students of all ages who may have difficulty getting into traditional schools.** The for-profit sector includes many established, reputable, career-oriented institutions. However, it also enrolls thousands of students in low-quality, high-promise, high-debt programs. Student debt can be particularly burdensome for these students, whose training may not be as valued by employers or transferrable to traditional colleges for further training. A recent report from the Minnesota Office of Higher Education states that the national for-profit sector enrolls 19 percent of students, but comprises 47 percent of defaulters.

## **2. Why the crisis is worse than we realize.**

**Student loans used to be paid off in 10 years or fewer, but now 20- to 30-year loan repayments extend into middle age and beyond.** Previously, traditional-aged college students, Gilbert said, could expect to pay off their loans by the time they were in their early 30s and "had their whole lives ahead of them." Now graduates might not pay off their loans until their mid-40s, their 50s, or beyond, particularly if they choose (or find it necessary) to return to school.

**Nationally, the number of people with student loans increased by 70 percent between 2004 and 2013.** Gilbert noted that 23 million people had student loans in 2004, while 39 million had student loans in 2013.

**Studies show that while income is not different between those with or without student loans, net worth drops for those with loans.** "That is likely to have a long-term effect," Gilbert said.

**According to the Minnesota Office of Higher Education, in 2012, 70 percent of Minnesota undergraduates had student loans, with an average debt of \$31,500, the fourth highest in the nation.** For students graduating from private schools in 2012, the average debt of \$34,221 in Minnesota was the second highest in the nation, Gilbert said. But a graduate with a debt of \$30,000, who gets a job paying \$35,000, could pay off the debt in 10 years, she said. Depending on the new grad's personal lifestyle choices and needs, a salary of \$40,000 to \$45,000 is likely required to comfortably support that level of debt.

**The country as a whole has \$1.1 trillion in student-loan debt.** \$112 billion of this debt is held by Americans 50 to 59. \$43 billion in debt is held by Americans 60 or older (Federal Reserve Bank of New York). It is unclear how much of these debt burdens were taken on for grandchildren or one's own education. "Student-loan debt is reaching across generations," Gilbert said. "It's a much bigger

problem than a \$30,000 debt taken on at age 22; it's a much bigger problem than tuition increases. That's another reason why the student-loan crisis is predicted to be the next big financial crisis."

**But the major problem is that student loans amount to only 18 percent of the cost of college.**

Subtracting out the 30 percent of college that, on average, is paid by grants and scholarships, for a student with loans of \$30,000, the remaining 52 percent of college costs (which amount to an average of \$86,667 for a student with that level of debt) ends up being paid by parent loans, student income and savings, parent income and savings, and friends and relatives. "It's not just a \$30,000 problem," Gilbert said. "It's a \$116,667 problem. And that figure does not include loans or cash contributions the school is not aware of. That's why it feels so terrible, even though the \$30,000 is the number that's being bantered around." (Figures taken from the Sallie Mae report  *How America Pays for College 2014*.)

**The total cost of loans will have long-term effects on the student and the economy.** 

 *Cumulative Student Loan Debt in Minnesota, 2011 to 2013*, a 2014 report by the Minnesota Office of Higher Education, shows the following median student loan debt in Minnesota in 2013 by degree, projected monthly payments, and years to pay off the loan. Gilbert added the total paid in principal and interest.

Degree	Median Loan Debt	Monthly Payments	Term of Payments	Total Principal & Interest Paid
Associate	\$ 19,300	\$222	10 years	\$ 26,640
Bachelor's	\$ 27,300	\$208	20 years	\$ 49,920
Master's	\$ 33,700	\$257	20 years	\$ 61,680
Doctoral	\$ 64,000	\$489	25 years	\$146,700
Professional	\$138,400	\$902	30 years	\$326,880

"It's really a very long-term problem," Gilbert said.

**3. Models for Recovery.**

**It will take lots of creativity and thinking outside the box to begin to control the skyrocketing costs of college.**

**Ideas for dealing with the existing student-loan debt of \$1.1 trillion include:**

- Looking at tax and business-friendly opportunities to pay down college debt.

- Considering something similar to lemon laws for students who were misled about the quality of a program and are now deeply in debt, without the credentials necessary to gain employment in their field.
- Calling on employers to try innovative ideas like the new Starbucks program that will pay for employees' last two years of college through tuition reimbursement. Employees who have worked at the company for one or two years and are working 20 hours a week would be eligible for the program. According to Gilbert, Starbucks has partnered with Arizona State to provide a quality, fully online program.

**A new framework for approaching funding college could help reduce future debt.** Gilbert is working on a new book called *Our Plan*, which recommends a new framework for approaching funding college that:

- Helps families think about what they can do today to avoid high student-loan debt.
- Is based on borrowing no more than a low-end, entry-level salary can comfortably support.
- Avoids debt that could affect major adult life choices, such as marriage, children, home or car ownership, graduate school, retirement and emergency savings.
- Teaches families to ask what a reasonable debt is for their family, for this student, for this degree, for this college, and to set how much debt they want to have at end of the student's college career.
- Resets parental, student and, eventually, corporate expectations.

**It would be positive if the governor could offer in next January's budget message the opportunity for organizations and companies to think about new ways of addressing existing student-loan debt.** Gilbert noted that there is a federal cap on how much companies can reimburse their employees for higher education. She suggested giving a tax incentive to companies that offer, for example, \$10,000 to top candidates as a hiring bonus, with the money going toward paying down the new employee's college debt. For this scenario to work, the monies would not be considered as income to the employee as long as the funds were sent from the company to the lender.

**The state could offer assistance to help people be better consumers.** Gilbert said educational programs for students on how to select a college, build and follow a budget, and understand college expenses and loans would be helpful, especially for first-generation students and adult students.

**One type of debt is lifestyle debt.** An interviewer commented that many students expect to live in college like they've lived growing up, such as having flat-screen TVs in their rooms. Gilbert said she offered this advice in one of her books: "Live like a student today, so you don't have to live like a student tomorrow."

**High schools make so few demands on students that academics has become a peripheral activity.** The interviewer continued that students think college will be just like high school. Then they find that with that outlook, they aren't able to finish college in four years.

**The other type of debt is school debt.** The interviewer said it's been so easy over the past 25 years for colleges to raise their prices that they "have raised them with impunity. Now they can't do that, because the revenue side has hit a wall." So, he said, grudgingly, colleges are now trying to work on the cost side. But, he continued, "colleges and universities are so unproductive, it's a sin." He commented that we need to intervene at the family level and "stop people from being such stupid consumers. The households are the problem. They enter this with no knowledge and no easy place to get the knowledge."

**Earning college credits in high school could help more students finish college in three years, instead of four.** Gilbert has worked to get more information out on Minnesota's Postsecondary Enrollment Options (PSEO) program, which allows high school students to take classes for free at any postsecondary institution in the state. She encourages college students to test out of any classes they can.

She said one of the challenges is that this only reaches a portion of the problem. The better solution is to help students figure out how to graduate in four years, rather than five or six.

**It's not the banks' responsibility to make sure students and families pay back their loans.**

Gilbert said one of the issues contributing to the debt crisis relates to understanding the essence of personal responsibility. She commented that being naïve about loan terms does not relieve a person of the burden to which he or she has committed.

An interviewer asked what responsibility the federal government has to assure that no predatory lending takes place. Gilbert responded that there are a lot of studies and initiatives underway to address that issue. "The challenge is getting out the word to individuals," she said. "It's going to take awhile for the students and the families to realize they can't trust e-mails and phone calls. It's buyer beware."

**Concern about the prediction that by 2020 there won't be enough people in Minnesota of working age to replace people who are retiring has pushed the idea that by 2020, we want 60 or 70 percent of people to have college degrees.** Gilbert said it isn't clear what the skills are that are going to be needed. "What really are the skills that are missing?" she asked. "And how do we get people interested in and trained in those skills."

**By 2020, 36 percent of the workforce will belong to generation Z, people born after 1994.** "The expectation of where work is done and how work is done is about to change dramatically," Gilbert said.

**There are fewer students in for-profit schools, but they have significantly higher average debt.** In 2010, there were four million students attending for-profit postsecondary schools nationally, Gilbert said, but they had 48 percent of the defaults and \$25 billion in federal loans that year. She noted that up to 90 percent of a for-profit institution's revenue can come from federal student loans. In Minnesota, 26 percent of the student body in 2013-2014 attended for-profits, but they made up 34 percent of the defaulters.

**Putting more investment and offering more scholarships in the high-need STEM fields would be a good policy.** The challenge, Gilbert said, is that an undergraduate math degree from MIT is not

the same as a math degree from certain for-profit institutions. "Because of the extreme difference in program quality," she said, "general government investments become a challenge." In the 1970s, 1980s and 1990s, there wasn't a huge difference between an English degree from one college to another, Gilbert said. She would suggest loan forgiveness programs, but slightly different from those offered today.

**A lot of data suggests that federal loans make up the majority of student-loan debt, but there is a cap of \$31,500 for federal loans for dependent students seeking an undergraduate degree.** The challenge is that students and parents are taking additional loans from banks and other private lenders, Gilbert said. In addition, loan limits are significantly higher for independent students (typically adult learners).

**A 2013 government report showed that the U.S. Department of Education generated \$41.3 billion from federal student loans last year, making it the third most profitable industry globally, behind Exxon and Apple.** However, the Department of Education argues this profit figure is inflated, due to the accounting method used in the report.

**Don't change bankruptcy laws to treat student loans like credit-card debt as a solution to the short- or long-term debt crisis.** Currently, student-loan debt is not forgiven when an individual declares bankruptcy. Gilbert does not want to change that, but she does believe some restrictions should be loosened.

**Nationally, in 2012, Princeton University had the lowest average debt load, \$5,096, of any postsecondary institution.** Gilbert commented that some colleges are truly rising to the challenge of helping students minimize debt. For example, Princeton's pioneering financial-aid program is committed to providing access and affordability to students from all economic backgrounds, without a required loan. The success of this program is, in part, attributable to Princeton's alumni organization. Gilbert called the organization "incredible" and said part of the group's mission is to help undergraduate students graduate with little to no debt.