MHEC 7th Annual Policy Summit
Ready or Not Here They Come
Ensuring the College Success of All Students

Summary of Financial Planning and Literacy: Session One
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Recent economic concerns have highlighted high unemployment rates and the ability of state and federal governments to generate tax revenues. Public expenditures for various services have come under increased scrutiny. Although higher education has seen dramatic decreases in state allocations, particularly in the past decade, until recently there has been little debate about the returns that result from obtaining a college degree. Nonetheless, recent media reports have implied that college is not the best bet, and that students might achieve similar opportunities by skipping it entirely.

Mark Hendel, a senior research analyst at Iowa Student Loan, presented an in-depth presentation about this topic and presented data that refutes the notion that college is not a worthwhile investment. To support this point he provided recent survey data:

- A May 2011 survey by Gallup and The Lumina Foundation shows that 69% of adults in the United States agree or strongly agree that college is “essential for getting a good job.”
- A February 2011 Iowa Student Loan survey indicated that 87% of students agreed that college was important “to be successful in life.”

He went on to present a host of commonly cited data highlighting the economic and societal benefits correlated with college degree attainment. Indeed, college graduates on average earn more than their lesser-educated peers. They are less likely to smoke, minimize public consumption costs, and are more likely to be civically engaged and vote.

After establishing the value of a college education, Hendel outlined the role that student debt plays in the lives of current students and recent graduates. Hendel also explained that the ability to work one’s way through college has become increasingly difficult as costs have risen and wages have remained stagnant. As a result, students and families have turned to debt as an alternative for financing higher education. Iowa Student Loan has collected survey data aimed at understanding the influence of increased loan debt on college students and recent graduates.

There are several key points that Hendel emphasized. First, he suggested that debt-to-income (DTI) is not a particularly good predictor of loan delinquency or default. However, it does predict a number of lifestyle and life cycle changes including delayed vacations, education, car and home purchases. One of the most compelling findings was that 94% of respondents had indicated that they had already minimized expenses in order to repay loans. This indicates that students are already spending a significant portion of disposable income on debt service and therefore debt repayment. He also provided evidence that the future financial security of students is at risk when they exit higher education with large loan burdens. For example, they found an inverse relationship between DTI and establishing savings or retirement accounts.

Hendel’s presentation shed new light on the unforeseen consequences of student borrowing and the often overlooked period of delinquency that reduces the quality of life for borrowers, but which does not influence the default rates that are regularly cited in government reports.