



# Paying the Price: Is Higher Education Worth the Cost?

As commencement season winds down, newly minted college graduates are basking in the glow of their accomplishment. But all too soon, many will awake to the reality of student loan debt.

Given the spiraling costs, mounting student debt, and declining graduation rates, the federal government wants to establish a rating system to assist families in evaluating whether the colleges and universities they are considering are worth the price tag.

The number of students taking out loans to pay for their college education has risen sharply in recent years -- and the amount of debt they have incurred has mirrored that rise. This year alone, the average debt burden of those graduating from college with loans will be about \$33,000 -- an amount that has nearly doubled in the past two decades.<sup>1</sup>

This debt load has made it harder for young adults to get on with their post-college lives. For instance, one study found that about half of those polled who had taken out student loans were finding it difficult to make ends meet; one in four said college debt has made it harder for them to buy a home, and a similar percentage said that college debt has affected their career choices.<sup>2</sup>

## Student Loan Defaults: An Epidemic in the Making

One dire consequence of the mounting student debt burden is the surge in loan defaults. A report by the Consumer Financial Protection Bureau (CFPB) released last year found that more than seven million college students have defaulted on federal or private student loans. Among those borrowers, the vast majority -- 6.5 million -- have defaulted on two federal loan programs: the Federal Direct Loan Program and the Federal Family Educational Loan (FFEL) Program.<sup>3</sup>

The CFPB noted that, "defaulting on a federal student loan has serious consequences. Unlike other consumer credit, borrowers in default on a federal student loan might see their tax refund taken and their wages garnished without a court order." Defaulting on a student loan also can result in low credit scores that can affect the ability to obtain a future loan or employment.

## Repayment Options

Fortunately there are options for those who have difficulty repaying a loan. In addition to the standard repayment option -- in which a loan is repaid in equal amounts over a pre-stated period, generally 10 years -- there are alternative, hardship-based repayment programs such as the following:

- Borrowers looking to reduce their payments can choose an income-based plan in which payments are tied to a portion of their income, but eligibility is contingent upon income documentation. The newest of these plans, Pay As

You Earn, requires borrowers to pay roughly 10% of their income above the poverty line. After 20 years, any balance still outstanding is forgiven.

- Another type of plan that requires less documentation allows borrowers to extend and/or gradually increase their incremental payments, but in so doing, incur more interest.

### Obama's "Pay for Performance" Rating System

Given the spiraling costs, mounting student debt, and declining graduation rates, the federal government wants to establish a rating system to assist families in evaluating whether the colleges and universities they are considering are worth the price tag. The proposed system would compare institutions on factors such as cost, graduation rates, the amount of debt students amass, and average earnings post-graduation.

The goal of the plan is to tie federal student aid to college performance, so that schools that receive top ratings would be able to offer more federally-funded student aid than those that receive low ratings. The White House is calling for the new rating system to be up and running before the start of the 2015 academic year.

### Despite Challenges, College Is Worth It

While college is expensive and going into debt is never comfortable, new data based on Labor Department statistics from the Economic Policy Institute makes a compelling case for higher education. Specifically, the Institute found that Americans with four-year college degrees made 98% more an hour on average in 2013 than people without a degree. That's up from 89% five years earlier, 85% a decade earlier and 64% in the early 1980s.<sup>4</sup>

Moreover, the report went on to suggest that the economic advantages offered by a college education are not limited to the graduates of elite schools or those that go on to earn post-graduate degrees. Indeed the wage gap is wide and getting wider for those average students who earn bachelor's degrees compared to those without such a degree.

<sup>1</sup>Source: U.S. News & World Report, "How to Pay Off Student Loans Within 5 Years of Graduation," June 4, 2014.

<sup>2</sup>Source: Pew Research Center, Social & Demographic Trends, *Is College Worth It? College Presidents, Public Assess Value, Quality and Mission of Higher Education*, May 2011.

<sup>3</sup>Source: The Consumer Financial Protection Bureau, "A closer look at the trillion," August 5, 2013.

<sup>4</sup>Source: *The New York Times*, "Is College Worth It? Clearly, New Data Say," May 27, 2014.