

Those who pay and those who don't: The role of family support in protecting young adults from student loan debt

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Introduction

In recent decades, student loan debt has become a harsh reality for the majority of American students. Student borrowing more than doubled between 1998 and 2008 (The National Center for Public Policy & Higher Education, 2008). In 2011, two-thirds of graduating college students carried student loan debt, with an average debt of \$26,600 (Reed & Cochrane, 2012). Although student loans are often viewed in positive terms, as rational investments in future earnings and as a means of increasing access to higher education, student loans come at a cost that is borne disproportionately by minority and low-SES students. There are stark racial and class differences in the amount of student loans taken out and the effect those loans have on students as they transition to adulthood (Harrast 2004; Jackson & Reynolds 2013). Students of color and those from low-income family backgrounds struggle more with loan repayment (Jackson & Reynolds 2013; Baum & O'Malley 2003), and student loan debt can lead young adults to delay things such as purchasing vehicles, getting married, and having children (Baum & O'Malley 2003). Although student loans are an important part of the system for financing higher education, it is essential to recognize this "dual-sided nature of college loans" (Jackson & Reynolds 2013), and investigate the factors that lead some students to rely more heavily on student loans than others.

In addition to student loans, another primary source of funding for postsecondary education comes from family contributions. In 2012, parental contributions accounted for 36% of total spending on college costs (Sallie Mae 2013). Paying for part or all of their children's college educational expenses represents a primary way in which parents can help their children on the pathway to success. Unfortunately, the ability to provide this assistance varies greatly by socioeconomic status, and therefore college financing becomes a medium through which social stratification is maintained across generations. Families from privileged backgrounds can pay for part or all of their children's educational expenses, thereby providing them with a college degree while shielding them from the cost of that degree. These young adults are then able to take full advantage of the increased earnings resulting from their education, while other students, saddled with student loans, must devote much of their income to paying off debt rather than building wealth.

This paper builds on status attainment and cumulative advantage frameworks, emphasizing the role of family socioeconomic status in passing on privileges associated with educational attainment. In the past, literature has focused on the role of parental socioeconomic status in determining who is able to attend college. Now that two thirds of high school graduates continue on to college (Bureau of Labor Statistics, 2013), however, the meaningful distinction may no longer be between those who attend college and those who don't, but between those who bear the costs of their college education and those who don't. This paper explores this question by investigating the role of financial support from family in protecting students from accumulating student loan debt. I measure student loan debt as the total amount borrowed from government or other private loan sources during the time students were enrolled in post-secondary education, and I consider the effect of two types of family contributions to educational expenses: money from family given with the expectation that it will be repaid, and money from family given with no expectation of repayment.

Surprisingly little research has considered the relationship between family contributions for college education and the accumulation of student loan debt. Important questions remain about whether receiving financial support from family truly does reduce overall debt, rather than allowing

students to attend more expensive schools or maintain a higher standard of living during college while taking out the same amount of debt, and whether this effect varies depending on whether family contributions are in the form of gifts or loans. Furthermore, if family support does have a negative effect on total student loan debt in general, it is unclear whether this protective effect will apply equally to all families, or whether there are racial and ethnic differences in the extent to which family support is able to shield students from accumulating debt. This paper addresses each of these questions, providing important insight into the relationship between these two primary sources of funding for postsecondary education, and illuminating the ways in which race influences both the amount of family support received, and the extent to which that support is able to protect students from accumulating debt.

Data and Methods

Data for this study come from the National Longitudinal Survey of Youth, 1997 (NLSY97). The NLSY97 is a nationally representative, longitudinal study that began with a sample of 8,984 American youth who were ages 12 to 17 in 1997, and respondents have been re-interviewed annually since that time. Because my focus is on student loan debt, I limit my sample to the 3,680 respondents who ever attended college between 1997 and 2011 and who reported complete information on all variables in the study.

The dependent variable used in this study is a summed measure of all government or other private loans that respondents report taking out during the time they are enrolled in college. Note that this measure includes all formal loans, but does not include money loaned by family members. My primary independent variables measure financial support for educational expenses from family. This includes an indicator of whether any type of aid from family was received, as well as measures of the total amount of family support by type: a total of all monetary gifts from family for educational expenses that are not expected to be repaid, and a total of all loans from family for educational expenses. Other independent variables include a measure of total cost of schooling (calculated by summing all sources of school financing for all enrolled terms, including loans, family aid, grants/scholarships, work study, employer assistance, other assistance, and respondents' own contributions), characteristics of colleges attended (including the percent of enrolled months during which respondents attended a 4-year school, the percent of enrolled months in which students were enrolled full-time, and whether students ever enrolled in private school), and sociodemographic controls (sex, race, degree completed, and parents' household income and education). Tables 1 and 2 present descriptive statistics for these variables.

Preliminary Results

Results from my preliminary models are shown in Table 3. Model I shows that, controlling for total school costs paid, those who received any financial support for educational expenses from family took out about \$1,500 less in government or private loans than those who didn't receive help from family. Model II investigates whether there is a difference in the protective effect of family support by type of support received. Results show that, controlling for total school costs paid and whether students got support from family, receiving financial gifts from family has a bigger negative effect on government and private loan debt than receiving loans from family does. For every dollar in family gifts received, students take out about 27 cents less in government and private loans. For every dollar in family loans received, however, students take out just 16 cents less in government and private loans. Model III adds controls for school characteristics and sociodemographics, but the relationship between family support and student loan debt does not change.

My next step is to explore racial differences in family support as a protective barrier to student loan debt. Table 2 revealed substantial racial differences in likelihood of receiving financial support from family. Whereas 74% of white students received support from their families, only 57%

of black students and 63% of Hispanic students did. The average amount received also differs dramatically, with white students receiving an average of \$17,152 from their families - more than double the \$8,091 received by black students, and substantially higher than the \$10,871 received by Hispanic students.

Model IV investigates this racial difference further, testing interactions between race and family support to determine whether family support offers the same protective benefits to minority students as it does to whites. The interaction terms are significant and show that white students receive substantially more protective benefit from their family's financial support than black or Hispanic students do. For every dollar received in family loans, white students are able to reduce their government and private loan debt by 19 cents, while Hispanics take out only 10 cents less. For black students, however, the effect is reversed: every additional dollar in loans from family results in a 30 cent increase in student loan debt. This finding is surprising, and perhaps suggests that black students whose families are only able to lend them money, rather than give it to them, are in particularly unstable positions, and may take out more student loan debt in order to ensure a more reliable safety net than what is available from their families.

The effect of receiving gifts from family on total student loan debt also differs significantly by race. Receiving gifts lowers student loan debt for students of all races, but once again whites receive a larger protective effect than do blacks and Hispanics. Each additional dollar in gifts from family reduces the total loan debt of whites by 26 cents, but only reduces debt by 20 cents for Hispanics and 16 cents for blacks.

Conclusion and Future Steps

These findings are preliminary, and I will continue to develop this project. Future steps include obtaining access to restricted data in order to get a better measure of cost of college attendance, improving measures of social capital and socioeconomic background, and using an improved method for dealing with missing data, such as multiple imputation. Even so, these findings tell an important story about the role that families can play in protecting young adults from student loan debt. Parents can use their financial resources to pay for their children's educational expenses, reducing the cost of educational attainment for their children and allowing their post-graduation earnings to be devoted to accumulating wealth rather than paying off debt. It is clear, however, that this protection from debt is not equally available to students. Black and Hispanic students remain at higher risk for student loan debt even when they receive financial support for their families. This underscores the dual-sided nature of student loans - although loans do allow students access to higher education, reducing class-based distinctions in educational attainment, they also create new, lasting divisions between those who bear the full cost of their education and those who do not.

References

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Table 1: Descriptive Statistics of Sample (N= 3,680)

	Mean	Median	Range
Percent with government/other loan debt	0.51	1	0-1
Average loan debt among those with debt	\$10,567	\$7,333	\$50-\$97,000
Help From Family			
Percent receiving gifts OR loans from family	0.68	1	0-1
Percent receiving loans from family	0.19	0	0-1
Average loan from family, among those with family loans	\$4,346	1700	\$1-\$105,000
Percent receiving gifts from family	0.66	1	0-1
Average gifts, among those with family gifts	\$10,322	\$4,075	\$5-\$251,000
Percent receiving Any Financial Aid	0.97	1	0-1
Average total aid received, among those with aid	\$28,039	\$17,930	\$3.12-\$251,675
School Characteristics			
Percent of months enrolled in 4 year school	0.54	0.61	0-1
Percent of months enrolled Full Time	0.79	1	0-1
Ever enrolled in private school	0.37	0	0-1
Demographics			
Female	0.54	1	0-1
Race			
White	0.60	1	0-1
Black	0.23	0	0-1
Hispanic	0.18	0	0-1
Parents' income in 1997	\$55,445	\$46,000	\$-48,100-\$246,474
Father's education	2.74	2	1-1
Highest Degree Completed			
No Degree	0.01	0	0-1
High School Degree	0.49	0	0-1
2-year degree	0.11	0	0-1
4-year degree	0.32	0	0-1
Master's degree	0.05	0	0-1
Ph.D. or Professional Degree	0.01	0	0-1

Table 2: Family support by Race

	Whites	Blacks	Hispanics
Percent ever receiving any type of financial support from family	74%	57%	63%
Percent ever receiving educational gifts from family	72%	56%	61%
Percent ever receiving educational loans from family	21%	14%	19%
Mean gifts from family, among those receiving gifts	\$12,107	\$5,810	\$7,323
Mean loans from family, among those receiving loans	\$5,045	\$2,281	\$3,548
Mean total family support received, among those receiving support	\$17,152	\$8,091	\$10,871

Table 3: OLS model predicting the effect of family support and other characteristics on total government and private student loan debt (N=3,680)

	Model I	Model II	Model III	Model III	Model IV
Total School Costs Paid	0.183 ***	0.257 ***	0.253 ***	0.251 ***	0.249 ***
Received any help from family	-1471.6 ***	-54.71	-51.64	-44.96	-220.3
Total Loans from Family		-0.162 ***	-0.158 ***	-0.159 ***	-0.188 ***
Total Gifts from Family		-0.265 ***	-0.265 ***	-0.256 ***	-0.263 ***
School Characteristics					
Percent of months enrolled in 4 year school			259.1	500.1	410.6
Percent of months enrolled Full Time			103.300	5.265	12.440
Ever enrolled in private school			383.6	423.8	446.9
Sociodemographics					
Female				375.8	393.3
Race					
(White)					
Black				-549.1	-991.4 *
Hispanic				-515.8	-1227.2 *
R's Highest Degree					
No Degree				-601.2	-609.4
High School Degree				-489.7	-488.9
2-year degree				1168.5 **	1100.2 **
(4-year degree)					
Master's degree				-606.9	-580.6
Ph.D. or Professional Degree				-4036.3 ***	-4006.8 ***
Parents' SES					
Parents' income in 1997				-0.002	-0.002
Father's education				-276.2 **	-288.5 **
Interactions					
Black * Ever received help from family					-269.3
Hispanic * Ever received help from family					467.8
Black*Total loans from family					0.487 **
Hispanic*Total loans from family					0.092
Black*Total gifts from family					0.104 **
Hispanic*Total gifts from family					0.069 *
Constant	1446.0 ***	440.3 *	183.1	1189.5 *	1533.4 *