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The Payback Stress Index: A New Way to Measure the Pain of Student Debt

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For new college graduates, the world is their oyster. Without many of the real-world burdens the rest of us face, they can do anything they set their mind to.

That is, unless they start their careers staggering under a pile of student debt. It would appear that student debt is one rather onerous real-world burden bestowed upon college graduates the day they are handed their diplomas—and this burden is causing them more stress now than at any point in the last decade.

Using data on average student debt and wages for young college grads, PPI has calculated the Payback Stress Index. This new measure enables us to quantify, for the first time, the increasing burden of student borrowing for today's college graduates.

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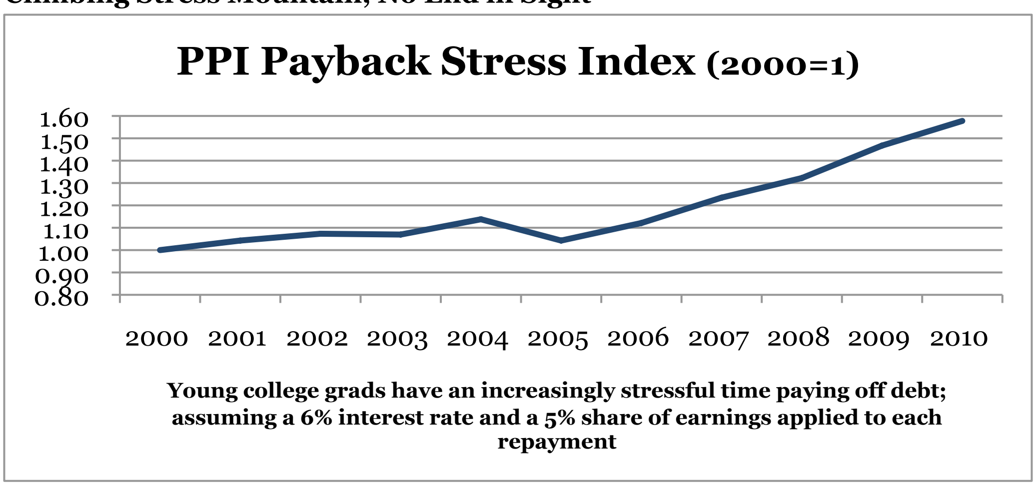
Based on the Payback Stress Index, PPI finds that paying off college debt was 58% more economically stressful for students who graduated in 2010 compared with students who graduated in 2000. Specifically, we calculated how long it would take to pay back the average student loan, given the average earnings of full-time workers aged 25-34 with only a bachelor's degree.[1] We then indexed that calculation to what the average repayment time was in 2000, assuming an interest rate of 6 percent,[2] and assuming that the representative college graduate paid 5 percent of earnings at each repayment.[3] The chart below of PPI's Payback Stress Index maps the rise in financial stress facing each class of college graduates.

Climbing Stress Mountain, No End in Sight



Source: PPI

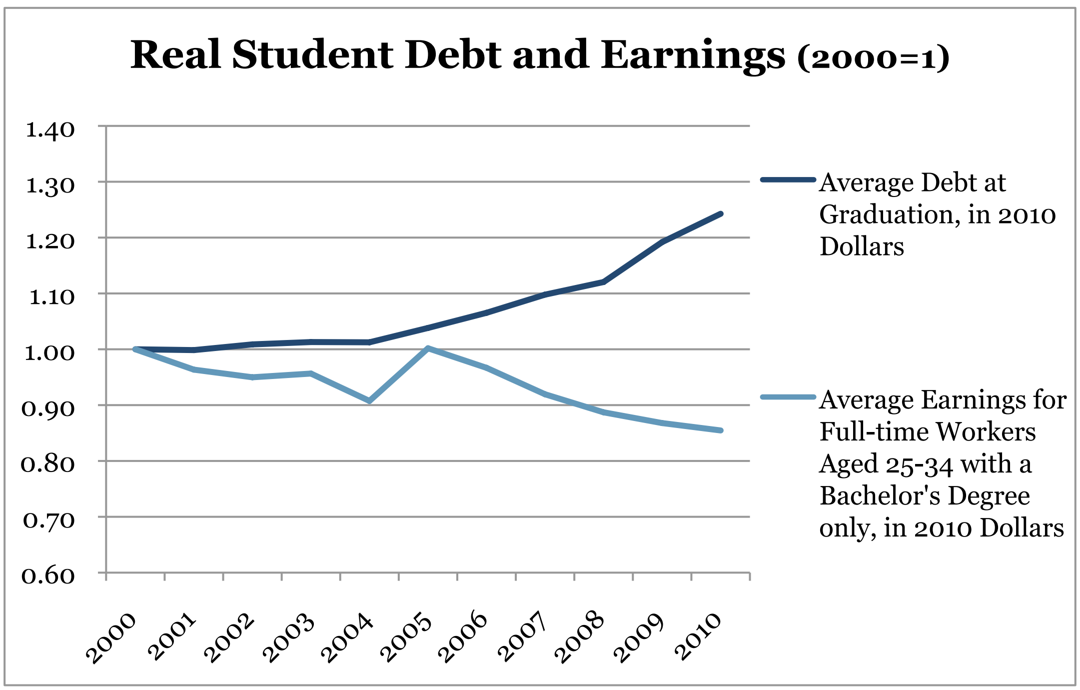
The Payback Stress Index allows us to compare different graduating classes within a single framework. To be sure, the PPI Payback Stress Index works with averages, and uses certain assumptions that may not hold true for every graduate—each college graduate with a student loan has their own repayment term and some were able to take on no debt at all. We're also assuming real earnings don't change throughout the repayment period, which affects how long it takes to repay student loans.

Still, the sharp climb in student debt payback stress has no end in sight—leading young college graduates to wonder when, or if, they will ever make it to the top and come down the other side. It's no wonder the younger generation has started giving the traditional benefits of going to college a second thought.[4]

The Underlying Frustration

The underlying numbers on student debt relative to earnings help to explain today's increasing frustration among college grads. Based on data from FinAid.org and the Census Bureau, PPI calculated that while average debt for new college grads increased by almost 25% over 2000-2010, average earnings for full-time workers aged 25-34 with only a bachelor's degree declined by 15% (both adjusted for inflation).

Frustrated: More Debt, Less to Show for It



Source: Census Bureau, FinAid.org, PPI

Looking at the numbers, average debt per new college graduate jumped from $13,625 in 2000 to $16,932 in 2010. And while debt levels rose, earnings for full-time workers aged 25-34 with only a bachelor's degree fell from $62,645 in 2000 to $53,539 (all numbers in constant 2010 dollars).

We do not have to go far to look for answers. The increase in average debt is in line with the large gains in tuition prices over the same period. According to the Department of Education, average annual costs for four-year institutions rose by 32 percent from 2000-2010, in constant 2009 dollars. Average total cost to attend a public four-year institution rose by over 40%, to $15,014 per year in 2010, while the average total cost to attend a private four-year institution rose by 21 percent, to $32,790 per year in 2010.[5] In other words, as college is getting more expensive, graduates are less able to pay for it.

Falling incomes and mounting debts undermine the traditional expectation that a college education is the passport to upward mobility in America.

Yet if young Americans want to go to college, they have little choice but to pay the ever-rising price and take on more debt accordingly. And given how expensive college has become, it's no wonder two-thirds of college graduates in 2010 were forced to take out student loans.[6]

What's more, the frustration college graduates encounter these days has worrisome implications for the future, should prices continue to rise without commensurate growth in real earnings. Falling incomes and mounting debts undermine the traditional expectation that a college education is the passport to upward mobility in America. They discourage people from getting the advanced skills that come with a college degree, at a time when America needs to raise the overall quality of our workforce to grow and compete.

Turn that Frown Upside-Down

PPI's Payback Stress Index highlights a breakdown in education's traditional role in redeeming America's promise of equal and expanding opportunity. As it turns out, the solution for boosting real earnings for college graduates is also the solution for getting the economy back on track: Innovation.

Innovation is what generates new economic growth, whether creating new goods and services or developing ways to produce goods and services more effectively. It's not about reclaiming low-wage manufacturing jobs; that won't boost real wages or enhance U.S. competitiveness. It's about investing in the next invention that will boost wages through productivity and create jobs that are internationally competitive—jobs that require advanced skills and knowledge of a college education. Without constant innovation, facilitated by innovation-friendly policies, the economy—and college graduates—suffer.

A low-innovation economy exacerbates the state in which we currently find college graduates—restless and unsatisfied. And the symptoms of this restlessness are getting worse. It's no coincidence the Occupy Wall Street movement features so many unemployed college graduates—graduates who don't understand why they aren't enjoying the opportunities their peers did just a decade ago.[7] The college graduates of today want answers and are looking for a political home in the 21st century—a home that will help provide college graduates with the opportunity to realize their full potential.

Moving Forward

College graduates deserve a new narrative, followed by real action, from both political parties—Democrat and Republican—on how to recapture the value of an ever more expensive college education. A roadmap for the future today's college graduates aren't getting, as politicians are generally silent on the subject.

The future doesn't have to be the same as the experience of the past decade. But without appropriate discussion taking place, let alone innovation-stimulating policies to change the current direction, college graduates will only become more frustrated. And with good reason.

Endnotes

[1] PPI chose to use the average earnings of the cohort aged 25-34 to allow graduates a chance to find a viable long-term job that would allow them to pay off their student loan debt.

[2] PPI chose 6% as a conservative measure. According to the College Board, most Federal Government backed loans are priced higher than 6% (although subsidized Stafford loans have a temporary reprieve), and alternative private loans are generally more expensive than Federal loans: http://www.collegeboard.com/student/pay/loan-center/433.html.

[3] PPI focused on the assumption that college graduates would pay 5% of their income, since the average earnings are pre-tax income. PPI found that increasing the share to 10% leads to a similar result.

[4] Hal Weitzman, "Debt Fears Drive US Youth Away from College," *Financial Times*, July 2011: http://www.ft.com/cms/s/0/8032774e-ae1f-11e0-a2ab-00144feabdc0.html.

[5] Department of Education, National Center for Education Statistics: http://nces.ed.gov/fastfacts/display.asp?id=76.

[6] The Project on Student Debt, "Student Debt and the Class of 2010," November 2011: http://projectonstudentdebt.org/pub_view.php?idx=791.

[7] Nelson, Libby, "Refusing to Pay," *Inside Higher Ed*, November 21, 2011: http://www.insidehighered.com/news/2011/11/21/occupy-movement-proposes-refusing-pay-back-loans

About the Author

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