

College Debt Hits Well-Off

Wall Street Journal

August 8, 2012, 9:00 p.m. ET

Upper-Middle-Income Households See Biggest Jumps in Student Loan Burden

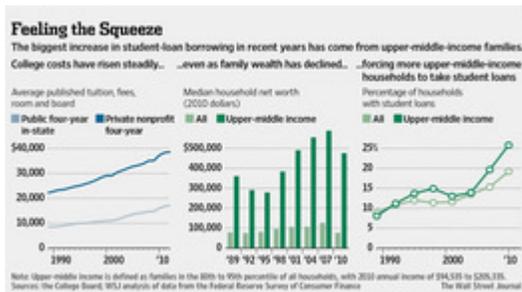
By RUTH SIMON and ROB BARRY

Rising college costs and a sagging economy are taking the biggest toll on a surprising group: upper-middle-income families.

According to a Wall Street Journal analysis of recently released Federal Reserve data, households with annual incomes of \$94,535 to \$205,335 saw the biggest jump in the percentage with student-loan debt from 2007 to 2010, the latest figures available. That group also saw a sharp climb in the amount of debt owed on average.

The surge is leading many such families to look closer at cost and value when choosing colleges. If the new frugality continues, experts say, it could make it difficult for all but the most selective schools to keep pushing through large tuition increases.

For Thomas and Mary Beth Hofmeister of Albany, N.Y., the news in December that their son was accepted to the University of Notre Dame, Ms. Hofmeister's alma mater, was met with equal parts excitement and anxiety. The family's financial-aid package included only a tiny grant, meaning the family will have to sink deep into debt to cover the annual cost of nearly \$58,000.



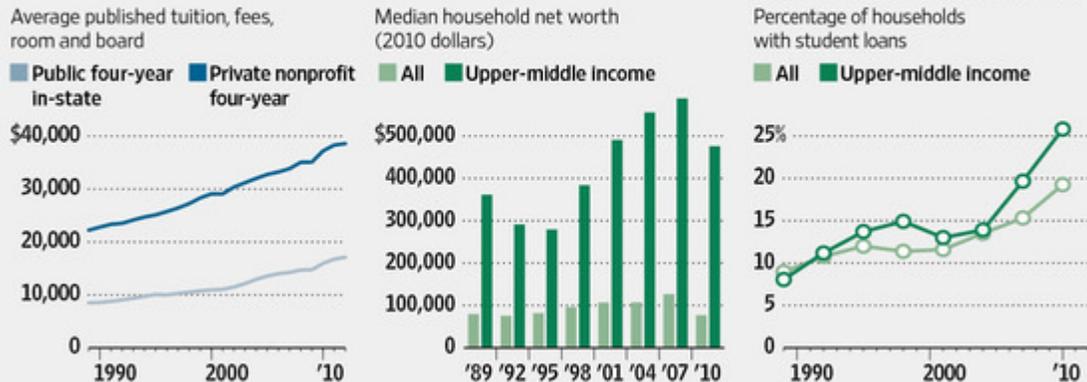
Feeling the Squeeze

The biggest increase in student-loan borrowing in recent years has come from upper-middle-income families.

College costs have risen steadily...

...even as family wealth has declined...

...forcing more upper-middle-income households to take student loans



Note: Upper-middle income is defined as families in the 80th to 95th percentile of all households, with 2010 annual income of \$94,535 to \$205,335. Sources: the College Board; WSJ analysis of data from the Federal Reserve Survey of Consumer Finance. The Wall Street Journal

Ms. Hofmeister, an insurance broker and financial planner, says she and her husband, an operations manager, combined earn a six-figure income that puts them in the upper-middle class and were surprised by the amount they will have to borrow. She says she feels trapped in financial purgatory, between "people with lower incomes who have a lot of subsidy, and the truly affluent, for whom this isn't a problem."

The Journal's analysis defined upper-middle-income households as those with annual incomes between the 80th and 95th percentiles of all households nationwide. Among this group, 25.6% had student-loan debt in 2010, up from 19.5% in 2007. For all households, the portion with student loan debt rose to 19.1% in 2010 from 15.2% in 2007.

The amount borrowed by upper-middle-income families, meanwhile, has soared. They owed an average of \$32,869 in college loans in 2010, up from \$26,639 in 2007, after adjusting for inflation, according to the Journal's analysis.

Borrowing has also increased for lower-income families, but by a smaller amount. Families with lower incomes tend to send their children to lower-cost schools and to cover a greater portion of their costs through financial aid, according to Sallie Mae. The typical low-income family receives grants and scholarships totaling 36% of the cost, the lender says, while for higher-income families such packages total 21%.

The figures put this segment at the heart of a larger trend striking across income groups. More than three million households now owe at least \$50,000 in student loans, up from about 794,000 in 2001 and fewer than 300,000 in 1989, after adjusting for inflation.

"There's no doubt that this is a squeeze on a lot of household incomes that many people did not anticipate," says Wells Fargo chief economist John Silvia.

Many well-off families remain willing to dig deep for the most prestigious schools and should be able to handle higher debt loads. The upper-middle-income households now repaying student loans spend just 3.2% of their monthly incomes on debt payments, according to the Journal's analysis, meaning they should have an easier time meeting those obligations than less-affluent families.

Even after adjusting for inflation, the average sticker price of four-year colleges has more than doubled since 1985, according to the College Board. Now there are signs that financial pressures are fostering a greater cost consciousness, even among wealthier families, and an increased focus on value.

According to the Cooperative Institutional Research Program at the University of California at Los Angeles, which surveys more than 200,000 freshmen, the portion of last year's freshmen who said cost was a "very important" factor when picking a college increased by 20.7% since 2007 for students with family incomes of \$150,000 or more, the biggest jump for any income group, says John Pryor, the program's director.

Rhonda Ker, a private-college counselor in the Los Angeles area, says some well-off families she works with are now willing to apply to second-tier schools where their total cost can be cut by half. Adds Ms. Ker, "I've been seeing these more realistic calculations and choices, rather than families just going for highest-ranked schools."

Even if the economy rebounds strongly, "this downturn has been long enough and severe enough that, for a generation, it will alter the way families think about price and higher education," says Richard Bischoff, vice president for enrollment management at Case Western Reserve University in Cleveland. A July 26 report from Moody's Investors Service noted that reductions in net worth, lackluster job growth and stagnant incomes have "created the stiffest tuition price resistance that colleges have faced in decades."

To be sure, some families are turning to loans because they spent heavily or used extra cash to save for retirement. More than one-third of parents with incomes of \$95,000 to \$125,000 with a child who entered college in 2011 didn't save or invest for that child's education, according to a survey by education consultants Human Capital Research.

But with college costs rising, twin blows from falling home values and the stock market plunge of 2008-09 have sent many families over the edge. On average, upper-middle-income households' median net worth fell 19%, to \$369,320, in 2010 from three years earlier, according to Journal calculations.

Robert Bremer, a sales manager, expected college savings to cover two years of tuition for each of his two children, a senior and a freshman. But he says he "lost a lot of paper money" and now only has enough for one year apiece. He plans to borrow to cover the shortfall.

Some well-off households are squeezed because of their preference for costly private colleges. Mary Nucciarone, associate director of financial aid at Notre Dame, says families earning \$125,000 to \$250,000 pose the biggest challenge for private institutions because "the contributions expected from them are probably higher than what the family is prepared to do."

But public universities also are seeing a shift. At Pennsylvania State University, where tuition has increased 21% over the last five years and state appropriations have fallen by 25%, "we've seen unsubsidized loans skyrocket," says Anna M. Griswold, executive director of the Office of Student Aid, partly because of stepped up borrowing by families that don't qualify for subsidized interest rates.

With their finances strained, some higher-earning parents are making their children pick up more of the tab. Among families earning \$100,000 or more, students paid 23% of their college costs in 2012 through loans, income and savings, according to Sallie Mae, up from 14% in 2009; the share covered by parents fell to 52% from 61%.

"The boomers are the first generation shifting the cost of college to their kids," both through increased student borrowing and reduced taxpayer support for higher education, says Susan Dynarski, a professor of education and public policy at the University of Michigan.

Some families are trying to keep debt to a minimum. Laura Casey's daughter initially planned to attend the University of Arizona at Tucson this fall, but instead will work and attend a community college in South Carolina. Her goal is to qualify for in-state tuition at Clemson University and eventually attend medical school. "Her goal is to avoid borrowing," says Ms. Casey. "Even though it's a little painful upfront, it is probably what all of us should do."

A version of this article appeared August 9, 2012, on page A1 in the U.S. edition of The Wall Street Journal, with the headline: College Debt Hits Well-Off.