

BREAKING THE PATTERN OF WEALTH INEQUALITY IN HIGHER EDUCATION: THE NEGATIVE ROLE OF STUDENT DEBT AND THE POTENTIAL OF CHILDREN'S SAVINGS ACCOUNTS (CSAs)

A pattern of wealth inequality

Children from **lower-wealth families** are less likely to attend and complete college.¹

- Bachelor's degree holders from **low-income families** start their careers **earning about 1/3 less** than those from higher income families.²
- Household income and net worth are higher for adults who received parental financial support for college.³

Parents with a CSA have **higher expectations for their children's education** and their expectations are **more likely to remain constant or increase over time** than peers without CSAs.⁴

College Readiness

The **prospect of debt is prohibitive** of pursuit of college and a college degree.

Infants that receive a CSA demonstrate significantly higher social-emotional skills at age four. CSAs mitigate about 50% of the negative association between material hardship and social-emotional development.⁴ Higher social and emotional learning is predictive of a 11-percentile-point gain in academic achievement.²¹

Children with **savings designated for college** are **31% more likely** to expect to attend college than children without savings designated for college.⁷

College Access & Wilt

Wilt contributes to the gap in college access:

Wilt - occurs when a young person expects to attend college but does not do so shortly after graduating high school. Student loans exacerbate wilt. For every one unit increase in debt aversion, young adults are 23% less likely to enroll in college even after controlling for expectations and academic achievement.⁸

Only **12%** of the highest-achieving children from **high income families** fail to make the transition out of high school and into college.¹⁰

31% of the highest-achieving children from **low-income families** fail to make the transition out of high school and into college.¹¹

A student with a **College Saver Identity (CSI)** expects to go to college and has identified savings as a strategy to pay for it. Students with CSIs are more likely to attend and graduate from college than those who expect to go to college but do not have a strategy to pay for it.⁹

CSAs reduce wilt. Low and moderate-income children with **savings designated for college** are **3x more likely** to enroll than if not.¹²

How we can break this pattern

Short-Term Solution

Eliminating student debt among those making \$50,000 or below would **reduce the Black-White wealth gap by about 37%**; for those making \$25,000 or below it would **reduce it by over 50%**.¹³

Long-Term Solution

CSAs combined with a Wealth Transfer. Children's College Savings Accounts could **reduce the racial wealth gap in America by 20% to 80%** depending on wealth transfer size.¹⁴

College Completion

For each **\$1K in loans required**, the probability of a low-income student graduating **drops 1.6%**.¹⁶

Low and moderate-income children with savings designated for college are **4x more likely to graduate** than without savings.¹⁵

Wealth Accumulation & Upward Mobility



Homeownership

Households with 4-year college grads with **outstanding student debt** have **\$70,000 less in home equity** than similarly-situated households without student debt.¹⁷



Retirement Savings

4-year college grads with median debt of \$23,300 have **\$115,096 less in retirement savings** by age 73 than those without student loans.¹⁸



Net Worth

Student debt burden for a dual-headed household with bachelors' degrees from 4-year universities **leads to a lifetime wealth loss of nearly \$208,000**.¹⁹

Acquiring \$10,000 in student loans is associated with a **18% decrease in the rate of achieving median net worth**.²²

Children who have **savings reserved for college** are...

2x

2x more likely to have a **savings account**²⁰

2x

2x more likely to have a **credit card**²⁰

4x

4x more likely to own **stocks**²⁰

71% of children born to **high-saving, low-income** parents move up from the bottom income quartile over a generation, compared to only **50%** of children of **low-saving, low-income** parents.²³