

# Unlocking the American Dream

Student Debt Solutions  
for Our Future Workforce

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**Chegg**.org<sup>SM</sup>



## Authors

Ajita Talwalker Menon is a leading higher education expert and Former Special Assistant to the President for Higher Education Policy in the Obama White House.

Marc Boxser is the Vice President of Communications and Policy at Chegg, Inc.

## Research and Analysis

Adam Looney is a visiting professor at the University of Utah and Senior Fellow at the Brookings Institution.

Ameera Ahmed is an expert in data and analytics and Former Director of Analytics for Morgan Stanley.

Bonny Brown leads Consumer Insights at Chegg, Inc.

## Chegg.org

Chegg.org is the not-for-profit arm of Chegg Inc, serving as an impact, advocacy, and research organization addressing issues facing the modern student.



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# Executive Summary

## The Far-Reaching Impact of Student Debt

A huge increase in student debt over the past two decades is affecting and disrupting American lives both financially and psychologically.

Some 43 million Americans owed \$1.4 trillion in student debt at the end of 2018, an average of \$33,500 per borrower.<sup>1</sup> That was more than all other non-mortgage forms of consumer credit in the U.S. Individuals must pay these crippling sums back in post-tax dollars when they can least afford it, when they are trying to get their careers and their adult lives off the ground.

What to do about this growing pile of debt? Economists and media pundits tend to undersell the impact on a cross-section of Americans. Politicians routinely offer blanket statements and silver-bullet solutions. But these initiatives rarely take into account the real-world impact of student debt on individuals and their families. They barely scratch the surface of the problem.

Moreover, policy discussions fail to fully leverage the role and responsibility of other stakeholders, especially employers heavily reliant on the post-secondary education system for a diverse, educated, and well-trained workforce.

# A Closer Look at the Problem

To gain insights into how deeply debt affects Americans, we reviewed publicly available data and proprietary research, including a survey of 1,100 adults under forty years old representative of gender, race and ethnicity by Chegg.org. Our work sheds light on the psychological and behavioral effects and financial stresses facing young borrowers across income groups. It also suggests simple, practical ways government and employers can work together to ease the financial burden on borrowers and opens a conversation to engage stakeholders around additional solutions that address critical shortcomings of the current system.

## Among our key premises and conclusions:

- Relaxed rules on program and institutional eligibility and loan sizes contributed to a more than five-fold increase in student debt between 2004 and 2018.
- Student debt touches a broader range of Americans on a larger scale and in different ways than commonly understood. Seventeen million Americans under 30 carry education-related debt. Twelve million student loan borrowers are in their 30s.<sup>2</sup> Borrowers over 40 owe 40 percent of all education debt.<sup>3</sup> Individuals 62 and older are shouldering a growing proportion of new student debt, primarily due to parent PLUS loans.<sup>4</sup>
- Many individuals who took on debt to support their postsecondary education find it unmanageable. Some express regret about taking on debt to pay for college.<sup>5</sup> One in three borrowers say they forgo payment of other debts to repay student loans.<sup>6</sup> Borrowers over the age of 65, many of them retirees on fixed incomes, are especially likely to default.
- Younger generations, still affected by the last recession, are experiencing a profound shift in their financial well-being, including slow wage growth and lower levels of asset accumulation and wealth while burdened with significant loan payments.<sup>7 8 9</sup>
- Problems in student loan servicing compound the pain. Lack of information about available borrower protections, complicated applications for income-driven repayment programs and processing errors lead to credit problems with long-lasting financial consequences.
- Employers, motivated by talent shortages and unhappy with the skill-readiness of college graduates,<sup>10</sup> are starting to play a more active role in educating workers and easing their financial burden. In-house education is on the rise; U.S. training expenditures rose 32 percent to \$90.6 billion in 2017.<sup>11</sup> In addition, companies are exploring ways to help employees pay off their student loans.<sup>12</sup>

# Toward a Holistic Solution

Addressing the unsustainable growth in student debt requires coming to grips with larger issues in the U.S. education marketplace.

## At the broadest level it involves:

- Correcting a fundamental misalignment between the knowledge and skills educational institutions impart and those the market rewards.
- Helping students assess opportunities grounded in understanding the financial implications of their education decisions.
- Bringing employers into the conversation to better share in the responsibility of supporting talent development.

Fundamental change will not come easily to the education marketplace. Witness recent rollbacks of regulatory attempts to mandate baseline quality assurance standards.<sup>13</sup> But the status quo is not a viable option.

# Practical Steps to Take Now

Although it may take years to fully address the fundamental issues that contribute to the student debt problem, there are things we can do in the short and medium term to ease its impact.

## Among our recommendations:

- Give borrowers a break. Provide tax deductions to individuals without access to employer-sponsored loan repayment programs, including workers in the freelance and gig economy.
- Engage employers with tax incentives. Use the tax code to encourage employer-sponsored loan repayment programs.
- Simplify the system. Streamline and automate payments, establish low fixed interest rates, set loan caps for all loan types to ensure borrowing stays manageable, raise the income threshold at which repayment must begin and make sure colleges meet baseline quality standards.

These steps won't magically fix today's student debt problem. But they will make borrower's lives easier and less stressful so they can focus on building their careers. They will also lay the groundwork for an educational financing system that is more economically sound and sustainable.

# How We Got Here

## Unintended Consequences

Understanding the forces that contributed to the rise in student loan borrowing is necessary to identify the problem spots in the student debt landscape.

From 2004 to 2018, outstanding student loan debt grew from \$250 billion to \$1.4 trillion. Much of this was driven by changes in the underlying federal laws and regulations that governed the federal student loan program.

These changes, made over several decades, increased the number of students eligible for loans as well as the total size of loans available to available to undergraduate, graduate, and parent borrowers. Since the 1990s, changes in federal policies also began relaxing accountability rules that determined which colleges could participate in the federal student loan programs.

These rules previously had prohibited borrowing in low-quality, distance education programs, established stringent standards on default rates for colleges and universities participating in the federal student loan program, and placed limits on for-profit colleges ability to recruit students who were dependent on federal student aid and presented an easy revenue source for the college.

Notably, student loan borrowers who attended a for-profit college, rather than a 4-year public or private college or university faced higher net costs,<sup>14</sup> were less likely to complete<sup>15</sup> and were more likely to graduate with high debt levels than without debt or with modest amounts of debt.

Recent rollbacks of new program integrity rules that were reestablished over the past several years now continue perverse incentives for colleges participating in the loan program, and shield colleges from responsibility for student outcomes. More importantly, it allows a repeat of the unprecedented growth in the federal student loan portfolio built on lending to higher-risk borrowers (those attending poor-quality institutions) and at debt levels that would be difficult to repay.

Changes in the federal student loan program were accompanied by a false narrative that student aid dollars--whether grants or loans--supported access equally, despite placing greater risk on the individual seeking support and less responsibility on the part of institutions to deliver outcomes that provide value to individuals and employers.



## Rising Tuition is only Part of the Story

Some accounts of the rise in student debt point to increasing college prices during the corresponding period. However, increases in tuition and fees explain only a small percent of the increase in student debt. From 2004 to 2018 the net price that students paid to attend college for full-time students (after grant and scholarship aid) did increase between 11 to 44 percent, much of which was driven by higher cost of living rather than tuition and fees. However, rising tuition only explained 15 to 20 percent of the increase in student debt over the long run (1990 to 2012.)<sup>16</sup>

### **Dramatic growth in borrowing for undergraduate students may have been driven by several other factors:**

- Rising enrollment in non-traditional institutions, such as online for-profit programs where nearly all students borrowed.
- Increases in borrowing-per-student at public and private non-profit institutions, including through federal parent PLUS loans, thought to be influenced by factors such as limited access to other credit driven in part by the Great Recession.
- Worsening financial situations for parents who used to contribute to their child's education that may have been combined with a greater social acceptance for debt financing for college that encouraged borrowing.

Loan balances also appear to increase because more borrowers take longer to repay loans, reflect new flexible repayment options that help borrowers manage debt based on their income or allow for periods of payment suspension through deferment or forbearance.

# What Our Research Reveals

## 1

### The Weight of Student Debt is Greater than Commonly Thought.

Many experts have argued that student debt was exclusively a concentrated problem for a small subset of borrowers, many of whom had smaller amounts of debt and lower incomes or high levels of debt relative to their income.

While these analyses identified some of the ways Americans were impacted by student debt, the realities faced by borrowers continue to evolve. Confronting the factors that led to the dramatic rise in student loan borrowing and exploring the way different generations are experiencing student debt forces a more nuanced understanding of how different individuals are impacted by student debt.

This broader lens considers the financial realities experienced by borrowers more comprehensively and tells a compelling story of why, as a nation, the U.S. needs to do more support current

borrowers and better enable future generations to realize the benefits of educational opportunity relative to past generations. It also provides important insights for policymakers around the best way to craft different policies to address core challenges in the student debt landscape.

Coming of age against the backdrop of unprecedented student debt and slow wage growth has had profound repercussions on how young Americans make financial decisions. Compounded with the burdens of student loan debt, Millennials are less well off than earlier generations, having accumulated fewer assets and less wealth.<sup>17</sup> They are also experiencing an entirely new level of financial pressure associated with higher costs of living, with housing, education, and health care rising well above the rate of inflation.<sup>18</sup>

A new Chegg.org study, the non-profit arm of Chegg, Inc. an education technology company, reveals just how much student debt deepens financial anxieties and influences decisions, often in ways that have adverse long-term effects. Chegg.org surveyed 1,100 adults under the age of forty from different demographic and socio-economic circumstances. The results revealed that difficulties associated with making loan payments are felt among low-income households and upper-middle-income households (where the amount of debt is higher). Moreover, the reaction of younger Americans faced with increased financial pressures associated with student debt revealed troubling behavior impacting their future financial well-being.

Among the survey respondents, the average monthly payment for households with incomes of over \$100,000 a year was more than two times the average monthly payment for all households [See Table 1]. 59 percent of respondents in those same high-income households had post-graduate degrees.<sup>19</sup> The significance of the high-income, high-debt burden borrower is of particular note because, unlike previous analyses there is a shift in the experience of younger borrowers that reflects an articulated need for additional supports that also punctuates the relative importance of advanced and professional degrees to employers.

[TABLE 1]

## Average by Debt Burden by Household Income

Household Income	Avg Student Loan Balance	Avg Monthly Payment	Annualized Payments
\$34,499 or below	\$39,541	\$238	\$2,854
\$34,500 – \$49,999	\$36,444	\$274	\$3,287
\$50,000 - \$74,999	\$47,670	\$213	\$2,552
\$75,000 - \$99,999	\$31,182	\$252	\$3,023
<b>\$100,000 or above</b>	<b>\$47,199</b>	<b>\$495</b>	<b>\$5,936</b>
Prefer not to say	\$24,663	\$257	\$3,082

\* Source: Chegg 2019 borrowers not currently enrolled in an education program

While the advanced degrees correlate to a premium in employment and income, higher incomes for those surveyed did not necessarily alleviate financial pressures associated with debt. In the Chegg.org survey, 66 percent of borrowers with household incomes over \$75,000 a year responded that they were somewhat or very worried about their financial future compared to 48 percent of non-borrowers. In the same groups, 56 percent of borrowers with responded that they somewhat or very worried about saving for emergencies compared to 40 percent of non-borrowers. Households with incomes of \$75,000 dollars or above rank among the top 40 percent of households placing them in the upper-middle and upper-income categories [See Page 10].<sup>20</sup>

Households at all income levels, including upper income households, experienced difficulties making loan payments. More than 67 percent of borrowers with household incomes of less than \$30,000 reported having difficulty making payments. But more surprising was that 48 percent of borrowers with household incomes over \$75,000 also reported having difficulty making payments.<sup>21</sup>

The decisions that borrowers make to manage the financial pressures they face are not isolated to student loans and can have lasting impacts. One in three borrowers reported having to forgo other monthly payments in order to make their loan payments. Amongst low income households, (families making less than \$35,000 the number of respondents who had forgone other payments went up to half.

# 1 in 3

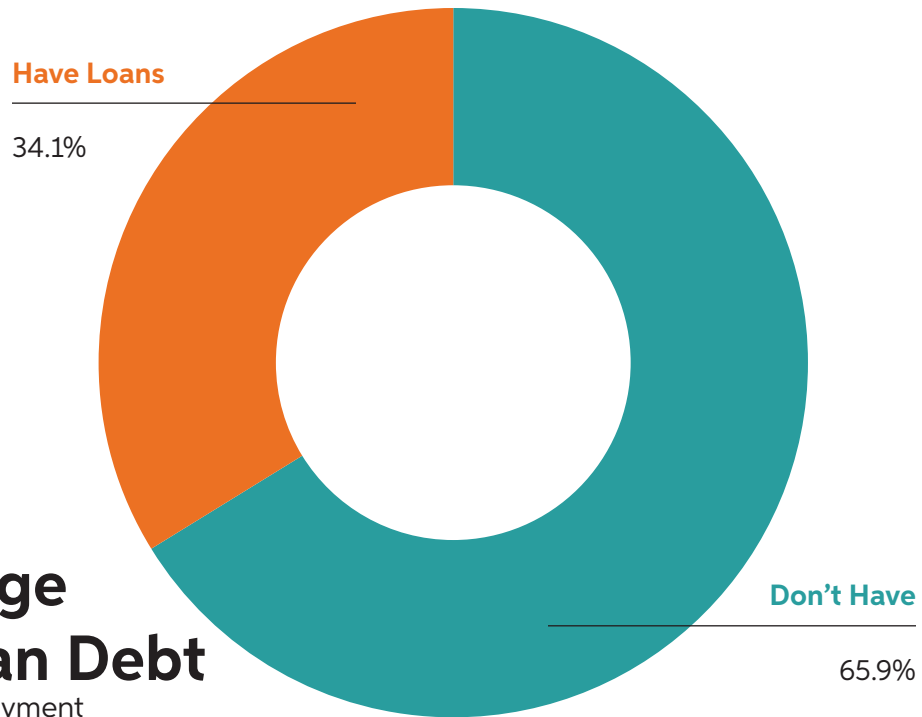
## **borrowers reported forgoing monthly payment to pay off loans**

83 percent of those who have forgone other monthly payments in order to pay their student loans had forgone credit card payments - a highly consequential decision that could decrease their future borrowing capacity and increase interest rates on the credit they are able to access. [See Page 10]. 44 percent of borrowers reported forgoing retirement savings. When asked about planning for the future there was a sharp contrast between young Americans with student loan debt and those without: nearly half of borrowers (48 percent) reported that they are not able to save for retirement compared to 34 percent of non-borrowers. These borrowers lose the advantages of asset growth from early retirement savings.

The financial stress of student loan debt creates an urgency for employers -- who are uniquely reliant on a highly educated and highly trained workforce -- to provide employees with solutions that can help alleviate that burden. Through thoughtful policy (like income-based repayment and tax incentives) that focuses on mitigating payment related stress based on borrowers' unique circumstances, policymakers can create policies that incentivize employer involvement in the training and development of an educated workforce.

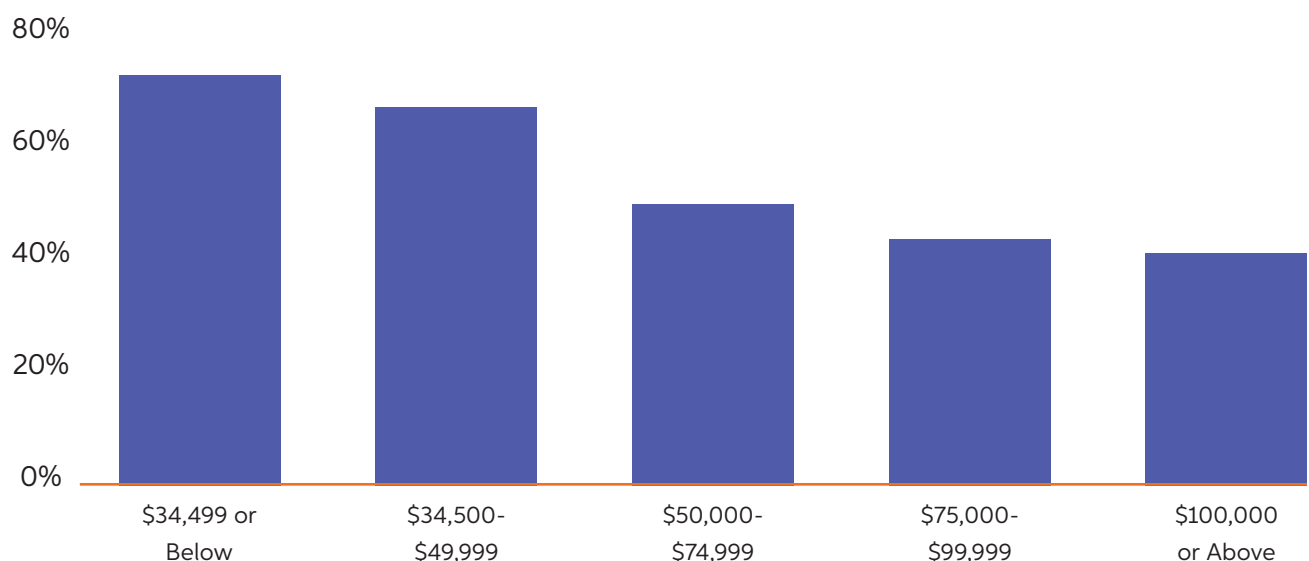
# In a survey of 1,100 of Americans 18- 39 years old

Conducted by Chegg.org<sup>22</sup>



**\$36K Average Student Loan Debt**  
\$279 Average monthly payment

## Debtors Have Trouble Making Payments



# 36%

## of borrowers reported forgoing other monthly payments to pay student loans



**83%** reported forgoing credit card payments

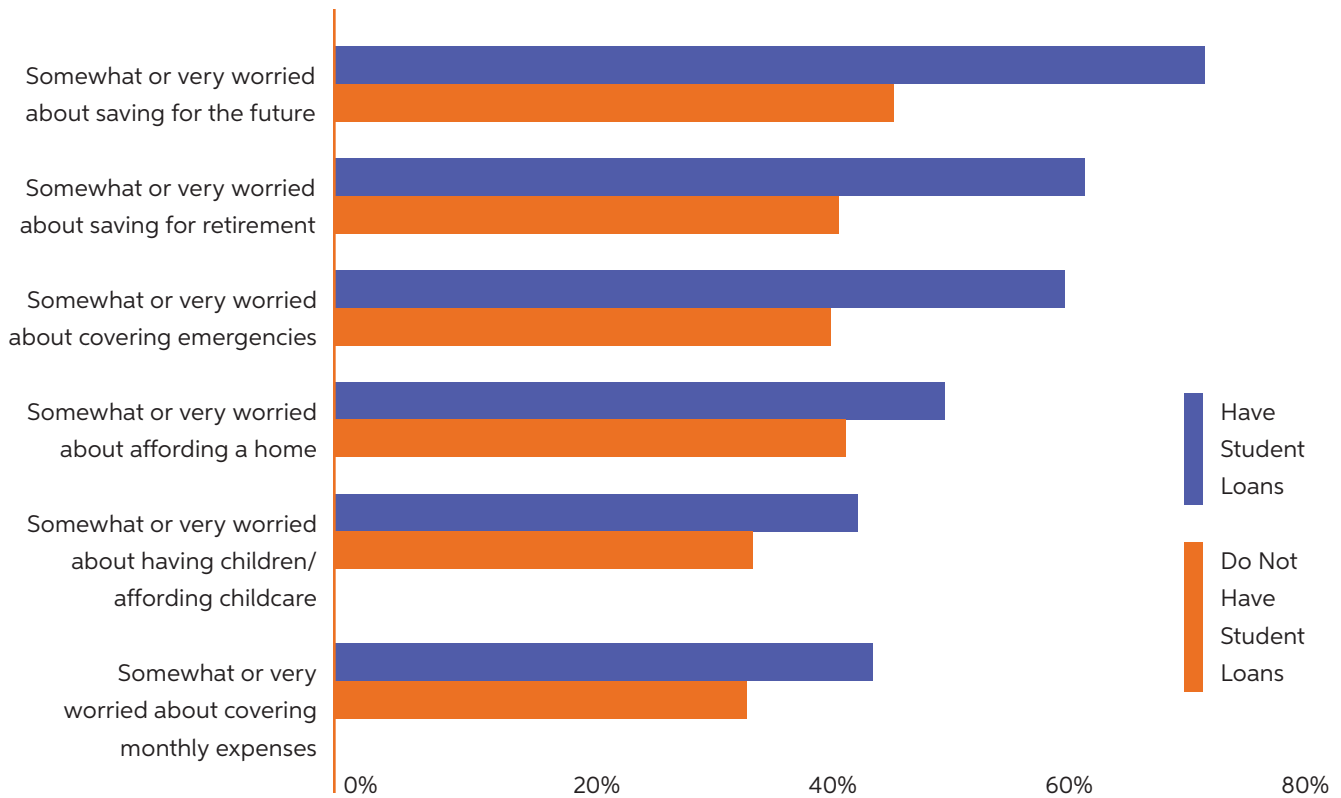


**69%** reported forgoing health expenses or insurance premiums



**44%** reported forgoing retirement savings

### Debtors and Non-Debtors with Income Over \$75K



*\*Source Chegg 2019, average loan debt includes all respondents, all other statistics based on borrowers and non-borrowers not enrolled in an education program*

# 2

## Student Debt Affects an Overwhelming Number of Americans.

About 70 percent of college graduates this year will leave with some amount of debt. Recent trends demonstrate that there is both a dramatic shift in how debt is distributed and how it is impacting a broader range of Americans.

In 2001, student debt was rarer and concentrated among high-income households. Only 11 percent of high-income households (top 10 percent) and 4 percent of low-income households owed student loan debt, and when they did, they owed an average of \$35,000 and \$6,000 respectively.<sup>23</sup>

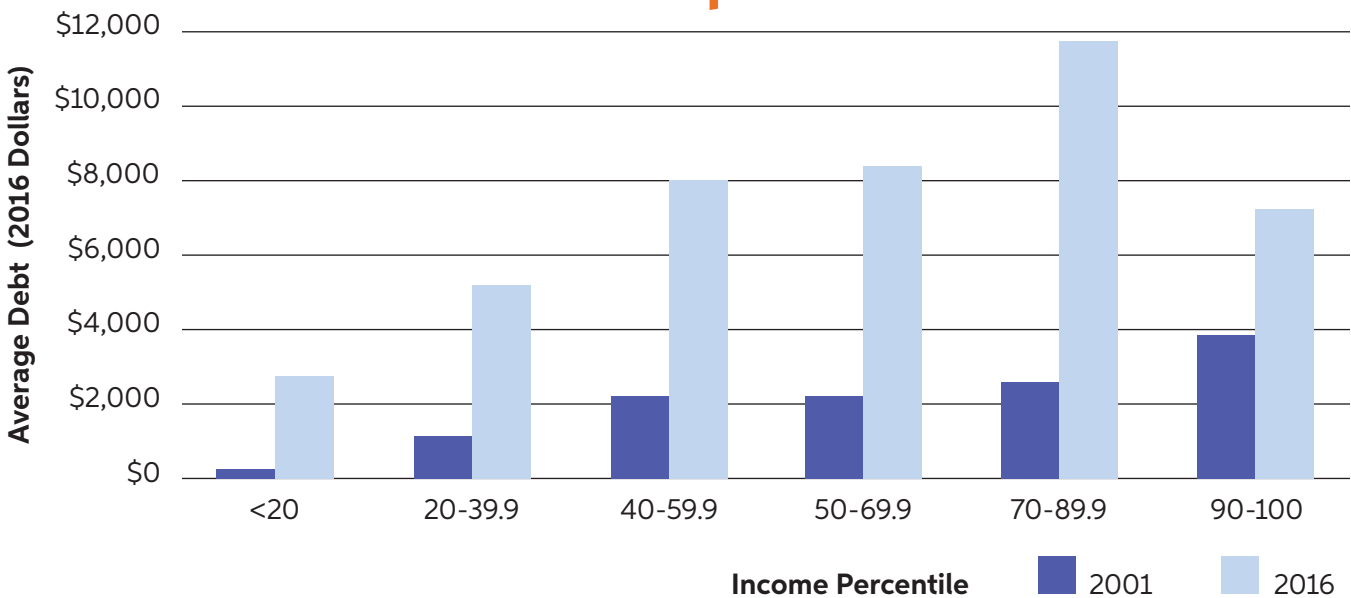
By 2016, one in five households owed some student debt, about twice as many families as owed student debt 15 years earlier, and the average amount owed by borrowers was roughly twice as high.<sup>24</sup> The increase was felt at two levels--upper-middle class households (in the 80th percentile) who experienced the largest dollar increase and low-income households who experienced the largest percentage increase in borrowing.<sup>25</sup>

Unsurprisingly, today's outstanding student loan debt is concentrated among highly educated, well-employed, higher-income individuals.

70%

of graduates this year will have student loan debt

## Student Debt per Household



About 36 percent is owned by the top 20 percent of the income distribution, while 13 percent of student debt is owed by the bottom 20 percent.<sup>26</sup> By education level, almost half of all outstanding student debt is owed by borrowers with graduate degrees, 28 percent is owed by individuals with a bachelor's degree and 24 percent is owed by individuals with less than a bachelor's degree (either someone with a certificate, associate's degree, or someone who did not complete a credential). Amongst borrowers, 26 percent have graduate degrees, 31 percent have bachelor's degrees and 42 percent have less than a bachelor's degree.

# 1 million borrowers default on their student loans annually

Overall, there has been a mixed, but moderately reassuring picture about the near-term economic impacts of student debt based on historical experiences of student loan borrowers. For those starting a bachelor's degree in 2009, 44 percent did not borrow and for those who borrowed, 25 percent borrowed less than \$10,000 and 98 percent borrowed less than \$50,000 by 2015.<sup>27</sup> Individuals who didn't borrow typically either selected lower-cost colleges,

like public or community colleges, or were able to pay for their college out of savings or family income. For those who did borrow, most paid off most, if not all, of their loan.

While this snapshot provides some important insights based on past changes in student debt, confronting more recent trends in borrowing identifies serious concerns.

While many borrowers, are able to manage their student debt, for far too many it has had a crushing impact. As many as 1 million borrowers default on their loans annually, triggering harsh consequences that threaten their financial security such as: significant collections fees, damage to their credit score, loss of eligibility for additional financial aid, wage garnishment, and legal action.<sup>28</sup> About 30 percent of borrowers leaving school at the height of the Great Recession (2009-11) defaulted on their loans by 2017; a trend that has seen some improvement with subsequent cohorts of borrowers.

Borrowers who struggle the most with their loans tend to be first-time borrowers who attended a for-profit or community college, did not complete their education, and owe a small amount of student loan debt. Nearly, one-quarter of borrowers who left school in 2010-11 owing less than \$5,000 defaulted by 2014, compared with 8 percent of borrowers who defaulted owing between \$20,000 and \$40,000 (typical of bachelor's degree recipients), and 7 percent who owed more than \$40,000 (almost exclusively graduate school borrowers). Overall, 30 percent of borrowers who default owed less than \$5,000 and 84 percent of all defaulters owed less than \$20,000.



# 3

## Failures in Loan Servicing Exacerbate the Problem.

The concerns over student loan defaults also trigger broader concerns over individuals' financial futures. Specifically, the placement of student debt within the context of the overall financial picture of individual Americans raises concerns over whether student loan borrowing in the U.S. is on a sustainable trajectory.

Research on the connection between student debt and homeownership reveals that the increase in student debt between 2005 and 2014 delayed homeownership by about a year, and also explained about 20 percent of the decline in homeownership among young adults. The decline in homeownership was triggered by defaults, the impairment of defaults on credit scores, and the subsequent inability to get a mortgage.

In addition to the effects of default, recent accounts have also exposed how broken the experience of student loan repayment can be for student loan borrowers, whether they are faced with deep economic hardship or just seeking to responsibly repay their student loans.

Student loan servicers, who are responsible for helping borrowers navigate the repayment process have often failed borrowers through poor quality servicing. The U.S. Department of Education's Office of the Inspector General,<sup>29</sup> the Consumer Financial Protection Bureau,<sup>30 31</sup> and other oversight agencies have all documented these widespread failures driven in part by poor oversight and program administration, including: incomplete or inaccurate information, payment application and other account errors, and failure to correctly process applications for eligible protections available to borrowers such as income-driven repayment plans,

Public Service Loan Forgiveness, and benefits available to active-duty military under the Servicemembers Civil Relief Act.<sup>32 33</sup>

In the recent example of Public Service Loan Forgiveness, the Government Accountability Office found that the U.S. Department of Education failed to provide sufficient and appropriate information to its student loan servicers and borrowers regarding the program and that failure increased the risk that borrowers could be unfairly denied or granted loan forgiveness.<sup>34</sup>

The impact of these failures in servicing can impair an individual's credit profile and credit score in ways that threaten their near-term financial well-being and their future financial outlook including access to credit. Credit scores determine an individual's ability to secure a loan, can also affect the terms and conditions of credit awarded (i.e. interest rates), and can affect insurance rates, rental applications, and potentially employer consideration of interview candidates for a job.<sup>35</sup>

FICO, the predominant credit score used by creditors, identified that for individuals aged 25-34 the average FICO score was 20 points lower for individuals with outstanding student loan balances (649) relative to individuals with no student loans (661) or individuals who had paid off their student loans (702).<sup>36</sup> Factors affecting an individual's credit scores include payment history (35 percent of the overall score), late payments and loan delinquencies or defaults. This is especially true early in an individual's credit history when few other accounts beyond a student loan may exist on their credit profile.<sup>37</sup>

With such high-stakes consequences in the repayment of student loans, current failures of the student loan system are unacceptable. Repayment challenges, whether driven by the failure of accountability in federal policy, extraordinary complexity of the system itself, inadequate management and oversight of the student loan portfolio, or systemic failures in loan servicing must be addressed for both current and future borrowers.

At a time when the nation needs more Americans to seek new knowledge and skills through education and training beyond high school, rising student loan debt, a breakdown in loan servicing, and a disconnected labor market weighs heavily on the promise of American opportunity.

Nowhere is this more true than in the challenges facing younger generations of Americans who are disproportionately impacted by student debt and who will soon become the largest part of the American electorate.<sup>38</sup> About 17 million borrowers are under the age of 30, including one in three people in their 20s who have student loans. This generation also boasts a larger share of indebted individuals than any previous generation in our country's history.<sup>39</sup>

Millennials experience student debt while also faced with setbacks triggered by the Great Recession that include difficulty accumulating assets and wealth that provide a unique context and challenge for managing their financial well-being. Millennials primarily hold non-mortgage debt. Low rates of home ownership coupled with lower returns on assets predicted for the near future means younger debtors are less likely to recover from setbacks they incurred during the recent recession, threatening their accumulation of assets and wealth as a generation.

Notably, in addition to the challenges facing millennial borrowers, there has been a significant increase in borrowing among older Americans.

Data from the Consumer Financial Protection Bureau show that student debt amongst adults age 60-69 quadrupled between 2005-2015, making them the fastest growing student debtor group.<sup>40</sup> More recent data from the Department of Education shows that there are 17 percent more student loan borrowers aged 62 and older than there were just a year ago in 2018.<sup>41</sup>

Increases in borrowing amongst older Americans has been focused on parent PLUS loans, where there has been a 13 percent increase in the percentage of parent borrowers (with their child as the recipient) and a corresponding 38 percent increase in the amount of money borrowed since 2015.<sup>42</sup> While it may be still too early to assess the full impact of higher levels of parent PLUS borrowing on older Americans, there is cause for concern. Older borrowers face substantially higher risk of defaulting on their student loans that may be attributed to factors like fixed incomes in retirement coupled with higher amounts of borrowing.

Nearly 40 percent of borrowers over the age of 65 are in default and more than 40,000 of these older borrowers are subject to garnishment of any federal benefits such as tax credits, social security payments and/or up to 15 percent of their monthly social security check through the Treasury Offset Program.<sup>43</sup> Even more troubling, a number of these borrowers trapped in the Treasury Offset Program may actually be eligible to have their loans discharged under a provision of law that forgives loans for individuals who are totally and permanently disabled.<sup>44</sup>

# 4

## True Educational Costs and Value are Obscured.

Problems in the student loan landscape begin long before repayment. The premium on postsecondary credentials underscores the need for education and training beyond high school, with two out of three entry level jobs now requiring at least some postsecondary education.<sup>45</sup> However, there is great variability in educational outcomes. While typical bachelor's degree holders see increased earnings of about \$1.2 million over a lifetime—about \$600,000 more than the average high school diploma holder and about \$300,000 more than the average associate's degree holder,<sup>46</sup> educational outcomes (both debt and post-college earnings) can vary based on a number of factors including the cost and quality of an education or training program. Unfortunately, there is a dearth of actionable information around college cost and value that prevents individuals from making better financial decisions about where to attend college and what to pursue for their education.

Too often information about college financing is also obscured from view. Illustrating this challenge is a New America Foundation analysis of 500 colleges' financial aid award letters showed how

individuals and their families fail to receive clear and transparent information on college costs and aid availability. The analysis revealed how letters were riddled with confusing jargon; routinely omitted the complete cost of attending; and did not differentiate between grants and scholarships, student loans, parent loans, and federal work-study (which carry varying terms and responsibilities).<sup>47</sup>

Contributing to the challenge of poor information, is a failure of baseline standards that had previously instituted some marketplace discipline around college quality and safeguarded individual and taxpayer investments in the federal student aid program. As previously described, the absence of these policy standards helped give rise to the growth in student loan debt and a disproportionate share of student loan defaults driven by the for-profit college sector. Additionally, unchecked growth in categories of debt associated with graduate and parent PLUS loans, also demonstrate loose standards and a lack of institutional accountability for the outcomes of the educational pursuits of borrowers that carry implications for student debt, especially amongst older borrowers.<sup>48</sup>

# 5

## Employers Help Drive Degree Inflation.

The lack of transparency in the marketplace, including limited information about student labor market outcomes and failure of a base level of outcomes-driven quality assurance for colleges to participate in the federal student aid program, also means that employers face difficulty in assessing whether postsecondary institutions are effectively preparing students to enter the world of work.

Evidence of this problem is reflected in the increasing educational credential requirements associated with entry-level positions that previous did not require a bachelor's degree. A 2017 study by Harvard Business School, Accenture and Grads of Life, which analyzed 26 million job postings and surveyed more than 600 business and HR leaders found that "many of the jobs traditionally viewed as middle-skills jobs--those that require more than a high school diploma, but less than a college degree--now stipulate

a college degree as the minimum education requirement."<sup>49</sup> The report identified more than 6 million jobs facing the threat of degree inflation across a range of industries and highlighted how the bachelor's degree as a proxy for skills has closed doors for otherwise qualified candidates including those already working in a given field.<sup>50</sup> This change is despite acknowledgment from many employers that "middle-skills workers with relevant experience [are] equally or more productive than college graduates."<sup>51</sup>

In addition to the lost opportunity to secure qualified candidates from a diverse range of backgrounds, this signal from the demand-side further contributes to the distortion on the supply-side of the market that can drive students towards more costly bachelor's and advanced degrees and consequently higher levels of debt, despite it being disconnected from having the skills needed to do the job well.

# 6

## Debt Compounds Employers' Talent Problems.

In addition to the challenges associated with current borrowers with outstanding student loan debt, there is a growing body of evidence that highlights a misalignment between the education and training system and the skills needs of U.S. businesses that can threaten the labor market benefits enjoyed by college educated workers and further contribute to challenges in student loan repayment. A number of factors appear to be impacting this misalignment including a perceived gap between the skilled talent that is supplied by higher education and the skills needed by employers. Only 11 percent of executives agree that U.S. colleges and universities graduate students with the skills and competencies needed by their businesses,<sup>52</sup> while 96 percent of Chief Academic Officers at colleges and universities believe they graduate qualified candidates.<sup>53</sup>

With low-rates of employer-sponsored training, and little voice in the conversation on student debt, employers have not played a robust role in the education and training of the workforce. Recently however, a number of employers -- many of whom face skilled workforce and talent shortages -- have begun investing in employer-sponsored training and loan repayment programs that can help them recruit and retain talent. In 2017, total U.S. training expenditures rose significantly, increasing 32.5 percent year-over-year to \$90.6 billion. These bright spots signal a changing role for employers as providers of education-related benefits, as they continue to gain from a skilled workforce.

Amidst a dynamic labor market where skills requirements continue to shift, the need for diverse higher-level skills (both technical and non-technical) will continue to grow. The lack of alignment between the education and training system and the opportunities in the job market,<sup>54</sup> will threaten to hamstring further those individuals who have financed their education reliant on student debt and expect that their credentials will lead to a reliable economic return that supports their future financial well-being.

Employers have an important role to play in driving value and supporting affordability in the postsecondary education system. Employer demand for bachelor's degrees unfortunately contradicts goals to reduce the reliance on education financed by burdensome student debt. This is despite recognition that inflating credential requirements fails to improve productivity. Often this demand also carries with it other costs to the employer in the form of higher wages for the same job performed, as well as higher turnover rates and lower engagement levels for bachelor's degree hires into mid-skill jobs.<sup>55</sup> This may be why a number of employers have recently announced they will remove bachelor's requirements for various jobs: Google, IBM, Hilton, Penguin Random House, Ernest & Young, Whole Foods, and Chipotle.<sup>56</sup>

# 7

## Employers are Starting to Take Action.

In the face of a tight job market where employers find difficulty securing talent with the skills they need, an increasing number of employers are looking at new ways (including new benefits and resources) to secure and retain talent including new benefits and resources.

In the most recent annual benefit survey conducted by the Society for Human Resource Management, employers responded that they were reluctant to increase wages and salary compensation citing concerns over economic uncertainty. They were, however, more likely to increase offerings across all benefit categories: health and wellness, leave, flexibility, career, retirement and other benefits.<sup>57</sup>

Prudential Financial, Inc.'s most recent survey of American workers found that 70 percent of workers were concerned about their financial well-being. Workers surveyed cited low income, a lack of retirement savings and a lack of emergency savings as the biggest challenges they face to feeling financial secure.<sup>58</sup> When asked about the benefits that would be most helpful to their financial well-being, workers highlighted retirement plans, life insurance, and educational benefits like tuition reimbursement and student loan repayment as the top three benefits.<sup>59</sup>

The latest employee benefit study conducted by MetLife further reflects shifting expectations for employers. Ninety-three percent of employees view holistic benefits that can be customized based on their needs as a must-have or nice-to-have benefit, 72 percent agree that benefits customized to their needs would increase their loyalty to their employer, and 53 percent of employees now view support of their financial well-being as a shared employer responsibility.<sup>60</sup>

Employers can play a critical role in expanding financial support resources catered to the diverse needs of their workforce and designed to help alleviate the financial pressures associated with student debt. Research conducted by the Center for Financial Services Innovation demonstrates that financial stress at work carries far-reaching costs to both workers and employers. Financial stress lowers productivity; increases absences, turnover, and healthcare claims; and increases costs associated with higher-wage, older workers unable to pursue timely retirement.<sup>61</sup>

Student loan debt repayment assistance is one of the leading financial wellness opportunities for attracting and retaining top talent.<sup>62</sup> Yet, only 8 percent of employers offer student loan debt repayment assistance (up from 4 percent in 2018), in contrast with more than half (56 percent) of employers who offer tuition assistance for education and training.<sup>63</sup>

In June, Chegg, Inc. announced a new program, “Equity for Education” designed to help employees reduce their student loan debt by as much as \$5,000 annually, focused on entry-level through mid-level managers, made in addition to an existing educational benefit of \$5,250 available for employees continuing education.<sup>64</sup>

According to Fidelity Insurance, more than 65 other companies have also created similar programs in response to a growing need to support employee talent. Fidelity’s results in its own program between 2016-2018 demonstrated the importance of such programs in recruiting new employees and reducing employee turnover. Fidelity saw a 75 percent reduction in employee turnover in the first year of program participation and an internal employee cited the benefit as among the top two reasons people decided to join Fidelity.<sup>65</sup>

Despite the recent uptick in the number of employers offering student loan repayment as a benefit for their workers, the Society for Human Resource Management cautions that scaling programs like this to more employers will require removal of the tax penalty for employers and workers for employer-sponsored loan repayment. Getting employers engaged in understanding the implications of student loan debt and incentivizing their participation in contributing to solutions is an important step in building greater employer participation in the higher education talent marketplace.

# Fixing the Problem

## Real Solutions Start with Engaging all Stakeholders.

As we look to the future, many troubling signals reveal an unsustainable trajectory for our country and our economy that require swift action. While the individual economic returns of a college education relative to individuals with only a high school credential demonstrate the necessity of a college education for middle-class jobs, we simultaneously confront the impact of a higher education financing scheme that relies heavily on indebtedness.

This scheme increasingly shifts the risk of educational pursuits onto individuals, raises the opportunity cost of higher education, and hard-lines economic divisions that education has always aimed to equalize. At the same time, employers as the beneficiaries of talent produced by the country's postsecondary system do not play an appropriately sized role in supporting individuals in the workforce.

Tackling the complex dimensions of student debt and resetting the course for a future that reverses the trend from debtor generations towards future opportunity generations requires an all hands-on-deck approach that involves individuals, colleges, employers, and policymakers.

Despite the strong interplay between these stakeholders, the current landscape of policy solutions has been dominated by proposals that push free college and wholesale debt forgiveness. Neither solutions are comprehensive nor nuanced enough to compel the broad-based action required to address different aspects of

the student debt challenge and to contribute to a functioning system of postsecondary education that both meets the needs of stakeholders and enhances our competitiveness as a nation.

Considerations in a new conversation on student debt reflect on the ways an increasing reliance on student loan debt carry high stakes consequences for those who face difficulty in repayment as well as those who confront significant trade-offs balancing student loan debt relative to other life goals and financial responsibilities like owning a home or saving for the future.

A key focus should be to identify what can be done now to address the financial realities confronting younger Americans with student debt, as well as the growing number of older Americans with student debt and the role that employers can play as the largest procurer of talent. Below are practical interventions that contribute to addressing the needs of younger middle and upper-middle income borrowers that supply the mid-and high-skill labor market but operate under an asset deficit that plagues a generation.

These interventions also address the challenges faced by all borrowers in repayment that disproportionately harm borrowers faced with higher risk of loan defaults. These policies represent important steps that should complement current benefits that already provide some borrowers with student debt relief.<sup>66 67</sup>



## Recommended Action: Give Borrowers a Break

Individuals currently repaying their student loans experience interest rate costs associated with the terms and conditions of their federal student loans set at the time their loan was originated and also pay income tax on student loan payments made to the federal government (with some exemption for deductible student loan interest).

Under this policy, rather than face a tax penalty on federal student loan payments, individuals would receive a tax benefit for the loan payments they make. Student loan payments made by an employer up to \$5,250 would be excluded from individual income tax. Additionally, individuals unable to access employer-sponsored programs would get a comparable benefit designed to address the growing reality of individuals in the freelance and gig economy (some estimate at 50 percent of the 2027 workforce<sup>68</sup>). This helps younger and rural workers, as well as older Americans weighed down with student loan debt.

For the employer-sponsored student loan repayment, an estimated 51 percent of borrowers would receive an annual tax benefit averaging about \$432 (\$36 per month). Costs for this proposal are modeled in the employer-sponsored loan repayment tax incentive under the second recommendation. For individuals who cannot access employer benefits, the individual tax deduction can be aligned to offer a comparable benefit and modeled after current educational tax deductions such as the recently expired tuition deduction for tuition and fees, or the student loan interest deduction.

This policy also benefits older Americans who carry a growing share of student loan debt at a time when their incomes are fixed, the amount of student debt they carry is unsustainable and financial pressures driven by other expenses such as healthcare continues to rise.

# Recommended Action: Engage Employers with Tax Incentives.

Encourage them to expand employee benefit programs with the inclusion of student loan repayment in the current tax incentive for employer-sponsored education and training (\$13 billion in year 1).

Over the past few years U.S. companies have benefited from tax breaks absent any compelling responsibility to drive those proceeds into supporting employee talent. Policymakers should restructure tax incentives for businesses who seek to make greater investments in supporting the development of talent by expanding the availability of employer tax benefits for student loan repayment.

*Under this policy, up to \$5,250 in individual student loan repayment would be exempted from employer payroll tax and employee income tax, benefiting both employers and borrowers. The policy addresses a leading source of financial stress for individuals and assumes the incentive would encourage employers to offer benefits that add value rather than displace salary compensation. The policy provides an important benefit for younger workers who make \$75,000 or more to support faster repayment and asset building.*

Bi-partisan legislation introduced in Congress, H.R. 1043 & S. 460, **The Employer Participation in Repayment Act of 2019**, provides this change to the tax code that would expand the tax exclusion for employer-provided educational assistance to include payments of qualified education loans by an employer to either an employee or a

lender. The policy, which includes both federal and private loans, would help to scale student loan repayment benefit programs to reach more borrowers moving the needle from 8 percent of employers who currently offer such a program. This is a benefit that is gaining in importance from the perspective of both workers and employers.

Under the current tax code, loan repayment programs run at a cost to employers because they largely result from increased payroll taxes in addition to the cost of the benefit itself. Moreover, for student loan repayment benefits (like their own student loan payments), individuals are taxed the same as income for tax purposes, with the exception of some ability to deduct up to \$2,500 in interest costs for individuals with incomes below \$80,000 and married borrowers below \$165,000.<sup>69</sup> As a result, employers pay to offer benefits and borrowers only see a percentage of the value of that benefit (based on their marginal tax rate).

Additional consideration should be given to structure the repayment benefit for borrowers whose incomes are too low to file taxes, but whose debt burdens remain severe, including underemployed or unemployed individuals. For these borrowers, existing income-driven repayment programs and loan discharge opportunities should be simplified and expanded to help borrowers avoid the negative consequences of default. Strong investments in grant aid should also be expanded to help directly subsidize opportunity risk for in low- and moderate-income individuals seeking to upskill.

## Recommended Action: Simplify the System.

Despite hundreds of millions of dollars in annual expenditures to service student loans through contractual arrangements with numerous private loan servicers, federal student loan borrowers currently in repayment encounter a complex loan repayment system fraught with poor-quality servicing. The stakes for borrowers are high, and the consequences of a failure are severe. Radically simplifying student loan repayment would take out the risk and uncertainty associated with student loan repayment reducing a key stressor facing student loan borrowers.

Over the past few years several thought leaders have called for a better and more rational approach to student loan repayment that supports quality loan servicing for all borrowers in repayment. Calls confirm the need for a radical simplification of loan repayment that prevents borrowers from stumbling on costly tripwires that can destroy their financial stability by breaking their consumer credit profile. Those seeking a postsecondary education should have a simple reliable way of financing a high-quality postsecondary education including replacing the complex navigation of inconsistent loan servicing towards with a more generous loan repayment system that could be administered through the federal tax system.

Under this policy, the individual costs of student loan defaults would be eliminated and streamlined repayment would make it easy, fair, and affordable for future borrowers to finance

college. Modeled largely after the existing Revised Pay As You Earn plan, this action would establish low, practicable interest rates for loans, provide more generous levels of income protection before loan repayment is triggered, make all loans eligible, cap borrowing for all loan types, and carryover additional borrower protections such as economic hardship deferments. The action benefits all current and future federal student loan borrowers, particularly those facing the greatest risk of default--borrowers with low-income, low-debt and older Americans.

A universal approach to repayment would help borrowers reduce monthly payments while also helping them avoid delinquency and default. It provides an important remedy for much of the consequences of delinquency and default on individual credit scores that enable or prohibit access to other types of consumer credit.

The design of this approach should also include key features such as an opt-out provision that can protect low- and moderate-income borrowers faced with the deepest economic insecurity. These borrowers often experience income shocks that can be harmful to meeting basic needs that could be further complicated with a lack of repayment flexibility. Higher protected income levels before repayment is triggered also can help account for this concern, and also alleviate higher costs of living facing younger and older borrowers.<sup>70</sup>

Participating colleges would be required to meet baseline expectations on opportunity, cost, and value to be eligible to receive taxpayer funds (for all categories of loans), designed to also ensure a strong signaling effect to hiring employers. Borrowing would be reasonably capped, similar to current loan limits, but applied to all types of student loans to ensure that colleges honor their responsibility to keep college affordable and to protect Graduate and Parent from unaffordable debts. Additionally, as prior proposals have highlighted, certain protections of existing student loan terms and conditions, such as the opportunity for borrowers to suspend payments during specific periods of hardship should be retained.<sup>71</sup>

Finally, additional analysis should be undertaken to consider the design of the policy for individuals disconnected from employers, including non-full-time workers and an increasing number of self-employed freelance and “gig” economy workers that some project to be 50 percent of the workforce by 2027.<sup>72</sup>

Previous analysis of key provisions of this proposal such as the budgetary costs of reducing interest rates reflect a potentially substantial cost associated with these changes. However, additional analysis would be required to determine the exact cost structure including the costs associated with such a program administered either by the IRS through the tax code, or via another federal agency.

These steps help build a foundation for a longer-term shift needed in postsecondary education to advance policies that better align the knowledge and skills needed in the U.S. economy with the education and training pursued by individuals. In this future, education and employment have a functioning marketplace where individuals are valued what they know, can do and can learn, rather than a system that relies on an imperfect and increasingly costly four-year degree as the only pathway to economic security.

# Rethinking the Education Marketplace.

Combined, the above policies would drive significant change in U.S. system of postsecondary education that begin to make the system work better for everyone by addressing key failures in the system. That includes setting conditions for college financing to ensure colleges reliant on student debt are producing value for students and are better aligned to labor market needs. The policies are not designed to be silver bullet solutions that replace all aspects of the current system. Rather they are impactful next steps that help build a set of real solutions engaging employers, borrowers, experts and policy makers to take action.

The impact of these policies is focused on borrowers who are disproportionately impacted by debt, including younger borrowers who are higher up the income ladder, but operating under an asset deficit and older borrowers faced with the financial constraints of student debt carried into retirement. It bears mention that employer-led benefits are only part of the solution and may not be targeted to support borrowers facing the greatest default risk, including those who may be unemployed, working part-time, or otherwise ineligible for benefits. Supporting these borrowers require additional design considerations that target the specific challenges faced by borrowers in different circumstances including low-income borrowers and borrowers with low-debt and low economic returns to their education.

Advancing the above actions also opens the door for greater engagement with employers that can lead to deeper systemic change to improve the overall performance of U.S. postsecondary education and training. It offers a fresh perspective on how to better align the cost and value to drive greater economic value for both individuals and employers.

The U.S. still needs to better confront how the forces of student debt are reshaping the culture and values of our democracy and threatening meaningful economic mobility for individuals in our country, further widening the wealth gap. A more transformative effect on the U.S. education and training system requires a focus on driving better value for all stakeholders.

As the nation considers broader changes to improve the overall performance of the U.S. postsecondary and education system, conversations around new solutions need greater focus on supporting individuals seeking new knowledge and skills, sharing responsibility between colleges and universities and employers for talent development, and compelling policymakers to take action to improve the laws and regulations that fix the broken education and labor marketplace. New solutions need to also build towards a more sustainable system of financing education that is also responsive to broader changes in the economy requiring ongoing education and upskilling throughout an individual's lifetime.



# Technical Appendix

[Table 1]

# Distribution of Student Loan Balances and Payments

	All Households		Households With Student Debt				
	Has Student Debt	Average Balance	Average Monthly Payment	Making Payment	Share of Borrowers	Share of Balances	Share of Payments
<b>All Borrowers Percentile of Household Income</b>	20%	34,850	211	66%	100%	100%	100%
<20	13%	21,393	56	29%	12%	7%	3%
20-39.9	17%	30,668	95	5%	17%	15%	8%
40-59.9	22%	36,736	152	64%	22%	23%	16%
60-79.9	24%	34,216	240	80%	25%	25%	29%
80-89.9	28%	42,133	362	82%	15%	18%	26%
90-100	16%	45,906	447	82%	9%	11%	18%
<b>Age of Household Head</b>							
<35	45%	35,557	241	70%	31%	32%	36%
35-54	27%	34,784	209	66%	52%	52%	51%
54+	7%	33,751	159	58%	17%	17%	13%
<b>Highest Education of Head or Spouse</b>							
HS or GED	5%	21,807	80	42%	8%	5%	3%
Some College or Assoc	23%	20,569	95	55%	33%	19%	15%
BA	27%	29,190	208	77%	32%	27%	31%
MA	31%	47,814	284	70%	20%	28%	27%
Professional/PhD	27%	102,801	688	83%	7%	21%	24%
<b>Race or Ethnicity of Respondent</b>							
White Non-Hispanic	18%	35,056	242	72%	59%	59%	68%
Black/African American	29%	36,111	168	57%	22%	23%	17%
Hispanic or Latino	17%	33,644	164	64%	8%	8%	7%
Other or Multiple Race	22%	32,192	161	53%	11%	10%	8%
<b>Occupation and Employment Status of Household Head</b>							
Managerial/Profession	29%	42,588	302	76%	42%	52%	61%
Technical/Sales/Service	27%	30,253	180	63%	28%	24%	24%
Other	20%	28,365	144	67%	17%	13%	11%
Not Working	8%	27,950	66	37%	13%	11%	4%

Source: Survey of Consumer Finances 2016



[Table 2]

# Employment, Income and Benefit Receipt

(Households with student Debt)

	Employed	Income	In Income - Based Plan	Offered Employer Benefits
<b>All Borrowers</b>	94%	87,140	27%	62%
<b>Percentile of Household Income</b>				
<20	66%	13,832	15%	17%
20-39.9	93%	32,597	30%	45%
40-59.9	97%	53,680	32%	56%
60-79.9	100%	88,403	33%	80%
80-89.9	100%	137,685	25%	78%
90-100	100%	288,158	16%	87%
<b>Age of Household Head</b>				
<35	95%	65,479	32%	58%
35-54	97%	96,804	28%	64%
54+	85%	97,485	18%	62%
<b>Highest Education of Head or Spouse</b>				
HS or GED	80%	45,516	21%	44%
Some College or Assoc	89%	56,655	28%	48%
BA	98%	93,426	29%	69%
MA	98%	112,010	28%	75%
Professional/PhD	100%	175,263	28%	72%
<b>Race or Ethnicity of Respondent</b>				
White Non-Hispanic	95%	100,063	25%	63%
Black/African American	92%	63,424	33%	60%
Hispanic or Latino	97%	70,263	34%	55%
Other or Multiple Race	89%	78,087	23%	60%
<b>Occupation and Employment Status of Household Head</b>				
Managerial/Profession	99%	110,906	28%	70%
Technical/Sales/Service	99%	73,312	30%	55%
Other	99%	80,419	29%	68%
Not Working	61%	48,960	18%	39%

Source: Survey of Consumer Finances 2016

[Table 3]

# Establish Employer-Provided Accounts for Tax-Free Loan Payments

(up to \$5,250)	Policy Effects			Memo: Characteristics of Households that Affect Benefit Receipt			
	Mean Monthly Savings	Has Tax Benefits	Share of Tax Savings	Employed	Income	Offered Employer Benefits	Tax Rate
<b>All Borrowers Percentile of Household Income</b>	36	51%	100%	90%	87,140	61%	30%
<20	1	4%	0%	56%	13,832	14%	10%
20-39.9	9	28%	4%	87%	32,597	44%	25%
40-59.9	20	48%	13%	93%	53,680	54%	29%
60-79.9	53	74%	37%	98%	88,403	80%	35%
80-89.9	57	74%	24%	97%	137,685	78%	34%
90-100	84	79%	21%	95%	288,158	87%	43%
<b>Age of Household Head</b>							
<35	38	51%	33%	93%	65,479	57%	28%
35-54	36	56%	53%	92%	96,804	63%	31%
54+	30	46%	14%	76%	97,485	58%	29%
<b>Highest Education of Head or Spouse</b>							
HS or GED	10	29%	2%	74%	45,516	40%	24%
Some College or Assoc	17	41%	16%	85%	56,655	47%	26%
BA	43	62%	38%	95%	93,426	68%	32%
MA	52	62%	30%	93%	112,010	74%	33%
Professional/PhD	70	68%	14%	94%	175,263	72%	33%
<b>Race or Ethnicity of Respondent</b>							
White Non-Hispanic	40	55%	66%	91%	100,063	63%	31%
Black/African American	28	50%	17%	89%	63,424	59%	26%
Hispanic or Latino	30	50%	7%	94%	70,263	54%	31%
Other or Multiple Race	30	49%	9%	82%	78,087	59%	28%
<b>Occupation and Employment Status of Household Head</b>							
Managerial/Profession	49	62%	59%	95%	110,906	70%	32%
Technical/Sales/Service	31	49%	25%	95%	73,312	55%	29%
Other	30	61%	14%	95%	80,419	67%	34%
Not Working	7	21%	3%	53%	48,960	33%	21%

Source: Survey of Consumer Finances 2016

[Table 4]

## Adults 39 and Under Who Completed At Least Some College and Are Not Currently Enrolled in an Education Program.

*Those who responded “Not sure” were suppressed.*

**Q8: Do you have outstanding student loans?**

Please select one response.

No	275
Yes	142
<b>Grand Total</b>	<b>417</b>

[Table 5]

## Borrowers And Non-Borrowers with HHI Incomes Over 75K Not Currently Enrolled In and Education Program.

How worried are you about the following?

	Cover Your Monthly Expenses		Covering Emergency Expenses		Being Able to Save for the Future	
	Borrowers	Non-Borrowers	Borrowers	Non-Borrowers	Borrowers	Non-Borrowers
<b>Not worried</b>	16	86	10	64	8	48
<b>A little worried</b>	26	45	21	54	15	61
<b>Somewhat worried</b>	17	43	22	47	24	58
<b>Very worried</b>	14	20	20	29	26	27
<b>Grand Total</b>	<b>73</b>	<b>194</b>	<b>73</b>	<b>194</b>	<b>73</b>	<b>194</b>

	Having Children / Affording Childcare Costs		Owning / Affording a Home		Affording Retirement	
	Borrowers	Non-Borrowers	Borrowers	Non-Borrowers	Borrowers	Non-Borrowers
<b>Not worried</b>	24	80	20	72	9	55
<b>A little worried</b>	19	50	18	44	21	62
<b>Somewhat worried</b>	16	40	15	51	21	46
<b>Very worried</b>	14	24	20	27	22	31

\* Source: Chegg 2019 borrowers not currently enrolled in an education program

Differences between borrowers and non-borrowers who were somewhat or very worried about covering emergencies, being able to save for the future and affording retirement were found to be statistically significant at a 95% confidence level and within a margin of error of 13.

[Table 6]

## Adults Under Age 39 Not Currently Enrolled In and Education Program.

How worried are you about the following?

### Educational Attainment by Household Income

	High School or Less	Some College or Associate's Degree	Bachelor's Degree	Masters, Doctoral or Professional Degree
\$34,499 or below	47%	33%	13%	6%
\$34,500 – \$49,999	29%	39%	21%	10%
\$50,000 - \$74,999	27%	33%	21%	18%
\$75,000 - \$99,999	7%	23%	40%	25%
\$100,000 or above	4%	12%	23%	59%
Prefer not to say	24%	18%	22%	18%
Percent of Total	29%	29%	21%	19%

\* Source: Chegg 2019 borrowers not currently enrolled in an education program



# Endnotes

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19. For the purposes of understanding the burden of making student loan payments, only respondents who were not currently enrolled in an education program were analyzed, leaving a sample of 605 respondents of which 142 had outstanding student loans. The results of this analysis mirrored results of other studies including those that were discussed in the previous chapter.
20. We studied households making over seventy-five thousand dollars a year because they would be the ones who would benefit the most from a pre-tax payment policy. The differences in relation to how much they worried about their financial future were statistically significant at a 95% confidence level with a margin of error of 13. The difference between borrowers and non-borrowers who were worried about making payments was statistically significant at a 95% confidence level with a margin of error of 12.
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