

Disparities in postsecondary degree completion rates and student loan defaults by race and ethnicity

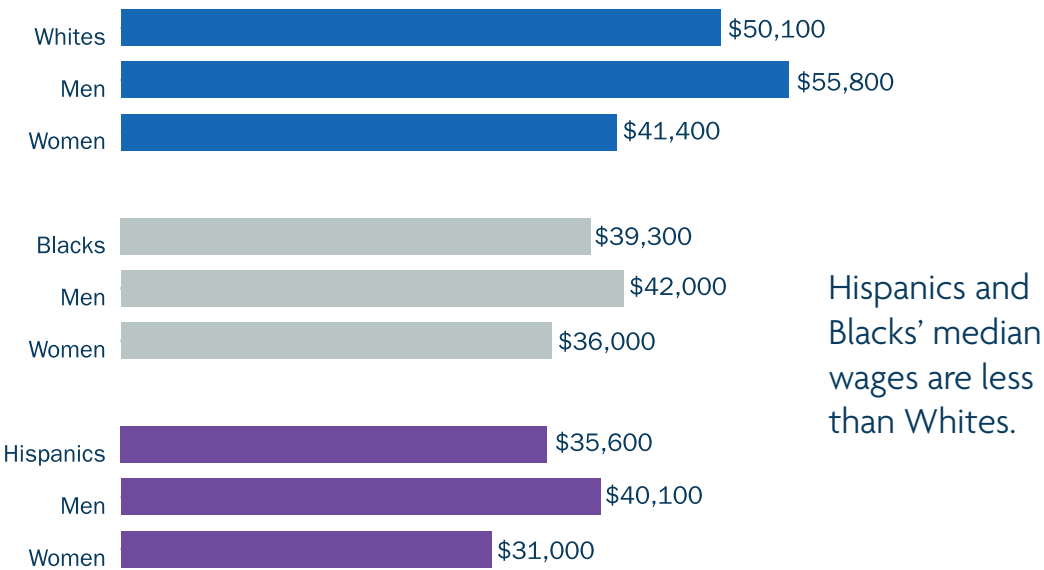
Introduction

There exists large income and wealth gaps by race and ethnicity (Aladangady and Forder, 2021). As shown in Figure 1, median wages for non-Hispanic White men and women are substantially greater than for their Hispanic and Black counterparts. Moving to wealth levels in Figure 2, the median White household has over five times the wealth of the median Black or Hispanic household. And compared to previous generations, Black Americans have less upward intergenerational financial mobility while Hispanic Americans have intergenerational mobility similar to White Americans (Chetty et al., 2020). Moreover, Black Americans have a smaller middle class by proportion compared to White Americans (Darity et al., 2020).

This brief examines systematic differences in education completion and student loan default by race and ethnicity. Differences in educational attainment could explain a portion of the earnings gap. In 2021, individuals with a bachelor's degree as their highest degree earned 39% more than associate degree holders and 65% more than those with only a high school degree (Bureau of Labor Statistics, 2022). Because most individuals pursue education in early adulthood, differences in degree completion or student loan defaults impact differences in lifelong financial security and the wealth and income gap.

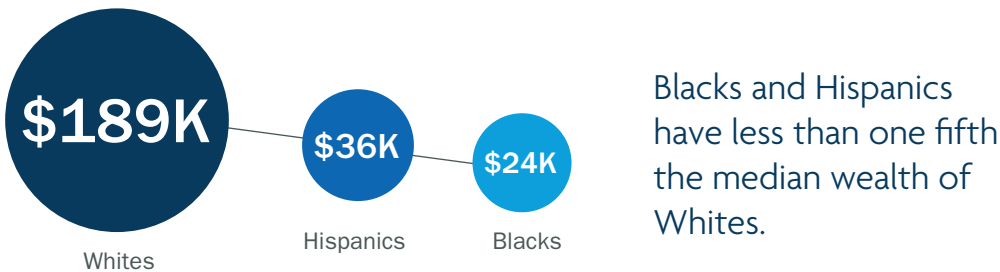
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Figure 1. Median wages by race and ethnicity



Source: U.S. Census, Current Population Survey 2020. Median wages for adults 25 years and older

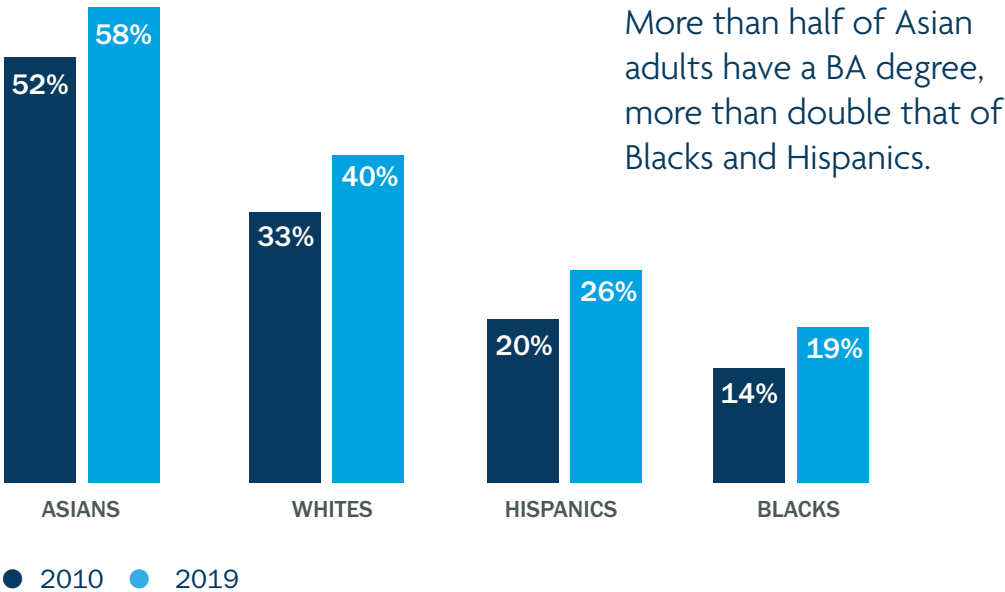
Figure 2. Median wealth by race and ethnicity



Source: 2019 Survey of Consumer Finances. Federal Reserve Board of Governors.

Figure 3 shows the percent of adults over 25 with a bachelor degree by race and ethnicity. Bachelor’s degrees are less common among Black and Hispanic adults compared to White adults. Forty percent of White adults over 25 had a bachelor’s degree in 2019 compared with 26% of Black Americans and 19% of Hispanic Americans. While these are noticeable differences, these gaps in bachelor’s degree attainment have decreased 13 percentage points for Black adults and 26 percentage points for Hispanic adults since 2010. Over half of Asian Americans hold a bachelor’s degree.

Figure 3. Percent of adults 25 years and older with bachelor’s degrees, by race and ethnicity



Source: U.S. Census Bureau Releases New Educational Attainment Data, March 30, 2020.

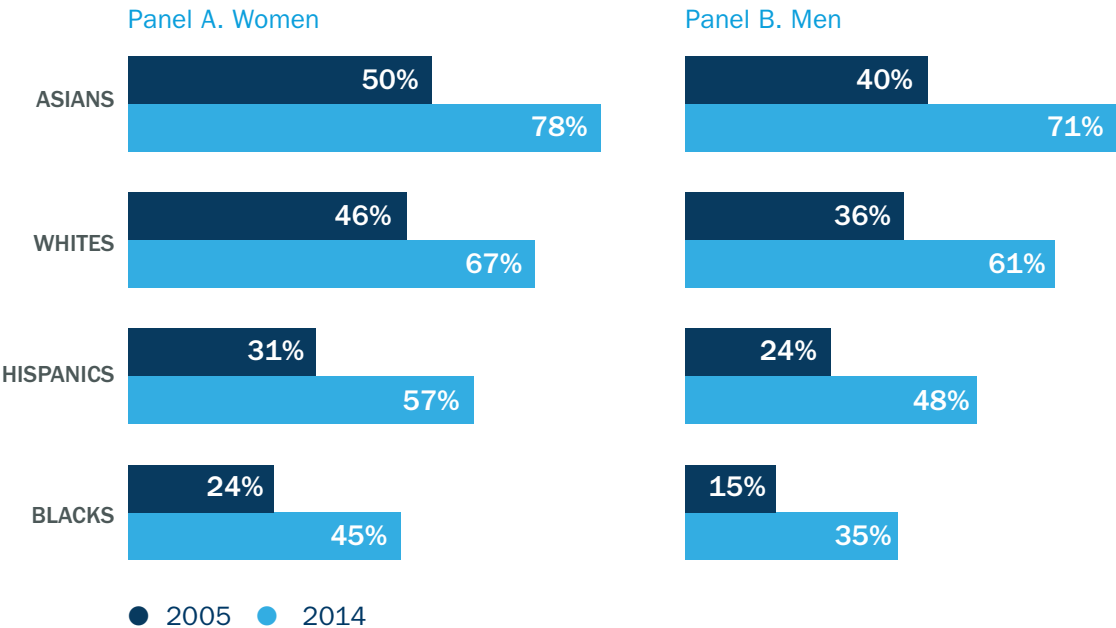
Increased education levels among Black and Hispanic Americans could lessen the income gap, and borrowing to fund a college education might be a rational strategy, especially given the education earnings premium. But reality is more complicated. For example, Black and Hispanic students are more likely to take on student loan debt than their White peers (Baum, 2019). Moreover, among student loan borrowers, Black and Hispanic students have \$4,000 to \$7,000 more debt on average than White students (Baum, 2022). Because Black graduates have a lower wage premium when obtaining bachelor and associate degrees than White graduates (Baum, 2022), Black graduates will be more strained to pay back student loans. Borrowing to finance postsecondary education but not completing a college degree is particularly problematic since an individual will have the debt but not the higher earnings of a college graduate. Next, I examine differences in degree completion rates.

Degree completion rates

Figure 4 shows the completion rates for men and women by race and ethnicity. Figure 4 shows completion rates for students beginning bachelor’s degree studies in 2005 and 2014, displaying women in Panel A and men in Panel B. Among women beginning bachelor studies in 2014 Black students are 33% less likely to complete a bachelor’s degree compared to White students. and this gap increases to 45% for black men. While this gap is large, it has shrunk compared to the 2005 cohort. For men, Black bachelor student completions decreased in 2005 from 59% less than white students to 33% less than white students in 2014. For women, the gap completion of black students decreased from 59% less than white students in 2005 to 43% less in 2014.

The differences for Hispanic students completing bachelor degrees compared to White students is smaller but still large: 16% less for men and 11% less for women. Completion rates for Asian students are higher, especially among the 2014 cohort. Closing the completion gap could be one method to decrease the overall income and wealth gap and increase intergenerational financial mobility among Black and Hispanic Americans.

Figure 4. Bachelor degree graduation rates within 150% of normal program completion time

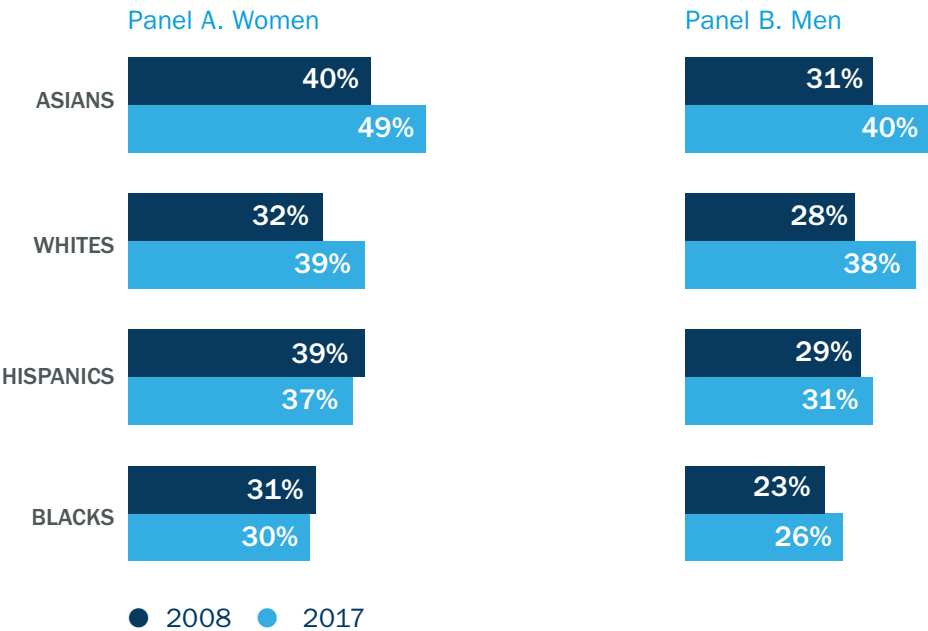


While Blacks and Hispanics have made the greatest gains, they are still less likely to complete their Bachelor’s degree than Whites and Asians. Women in each ethnic group are more likely than men to complete their BA degree.

Source: National Center for Education Statistics.

Figure 5 shows completion rates for students beginning associate degrees in 2008 and 2017, respectively, with women shown in Panel A and men shown in Panel B. Completion differences for two-year degrees are slightly smaller than in Figure 4 but in the same direction. Among students beginning associate degrees in 2017, Black men (women) are 33% (24%) less likely to complete a two-year degree compared to White men (women). The difference between Hispanics and Whites is smaller than Black students, as Panel B shows a 19% gap among men and a 5% gap among women. Unlike the bachelor completion gap which has decreased, the relative difference in the completion gap has increased between White students and Black students when comparing 2017 to 2008, rising from 4% less among women in 2008 to 24% less in 2017 and 18% less to 33% less among men.

Figure 5. Associate degree graduation rates within 150% of normal program completion time



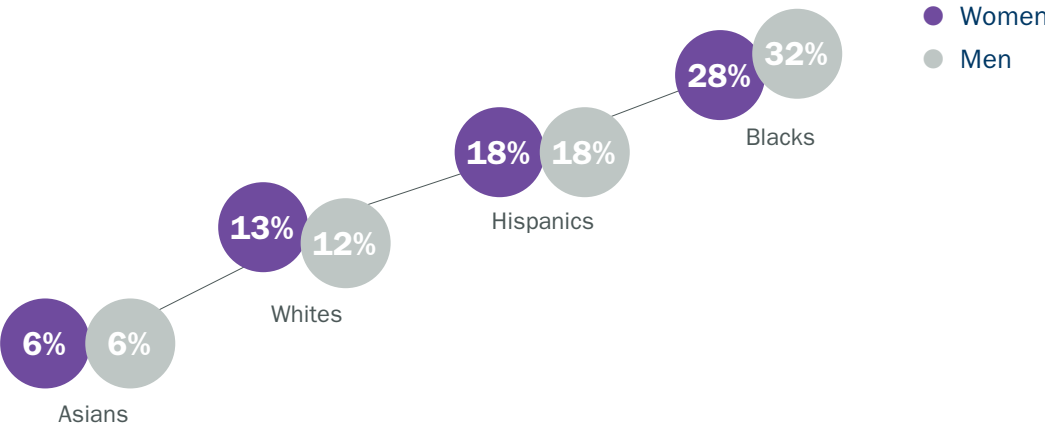
Black men and women are less likely than other ethnicities to complete their AA degrees.

Source: National Center for Education Statistics. 2014 cohort year for bachelor’s degrees and 2017 cohort for associate degrees.

Student loan default rates

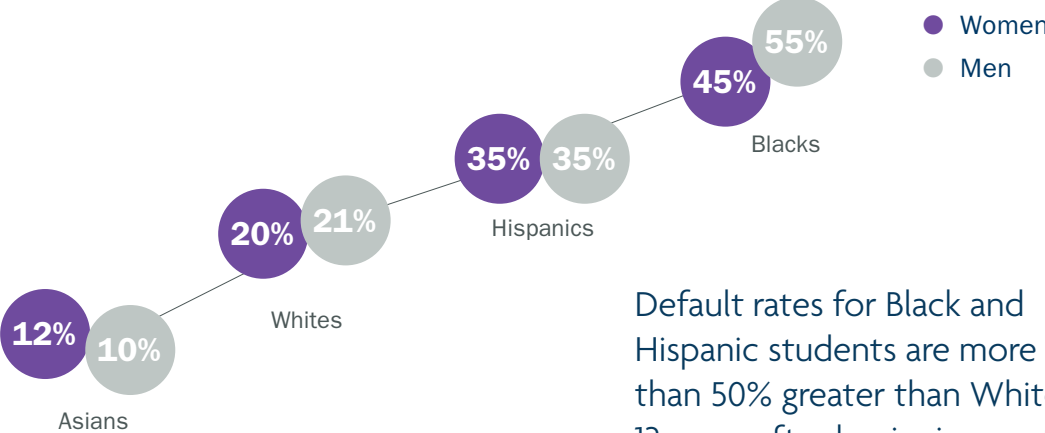
Lower college completion rates and greater borrowing levels, on average, could lead to greater difficulty repaying student loans among Black and Hispanic Americans as evidenced by student loan default rates. Figure 6 shows student loan default rates five years after beginning a bachelor’s degree program and Figure 7 shows student loan default rates 12 years after beginning a bachelor’s degree program. Black men and women are more than twice as likely as their White peers to have defaulted on at least one student loan in both time periods. The default rate for Black borrowers 12 years out is 45% for women and 55% for men, compared to only 20% of White borrowers. Hispanics are less likely than Blacks to default but are still 50% more likely to have defaulted compared to White students. On average, Asian borrowers default about half as often as White borrowers.

Figure 6. Student loan default rates, 5 years following post-secondary studies in 2012



Source: National Center for Education Statistics.

Figure 7. Default rates, 12 years following program post-secondary studies in 2004



Default rates for Black and Hispanic students are more than 50% greater than Whites 12 years after beginning post-secondary studies.

Source: National Center for Education Statistics.

Discussion

In this brief, we've examined postsecondary gaps on postsecondary degree completion. Because of the earnings premium, increased education levels can alleviate this gap, even when education is financed by student loans. However, borrowing and then not attaining the degree is likely problematic because individuals do not have a wage premium from the degree but still need to pay back any student loans. And here we find a stark gap in student loan default rates by race and ethnicity. Not only do student loan defaults represent greater evidence of household balance sheet strain, but they impact credit, such as qualifying for a home mortgage loan.

Programs, advice, and education related to higher education program completion may reduce the student loan default gap and help reduce income inequality. Nudges to encourage students to reduce the amount of student loan debt taken need to be carefully examined because this can have negative impacts on academic performance (Barr et al., 2021). Empowering students to have better knowledge of wage premium of degree completers' may also improve degree completion, as would assisting students with their non-financial needs.

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About the author

Brent J. Davis is an Economist at the TIAA Institute. His research interests include behavioral economics, behavioral finance, and household financial security. Before joining the Institute, he spent several years as a postdoctoral researcher and lecturer in the Department of Public Finance at the University of Innsbruck in Austria. Davis has taught a variety of courses and published several papers in behavioral economics. He is a member of the American Economic Association, the American Risk and Insurance Association, and the National Tax Association. He earned an M.S. and a Ph.D. in economics from Florida State University, and a B.S. in mathematics and economics from St. Lawrence University.

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