



Lured or Pushed?

Understanding Debt in America

Tamara Draut

Director, Economic Opportunity Program, Demos

Author, *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead*



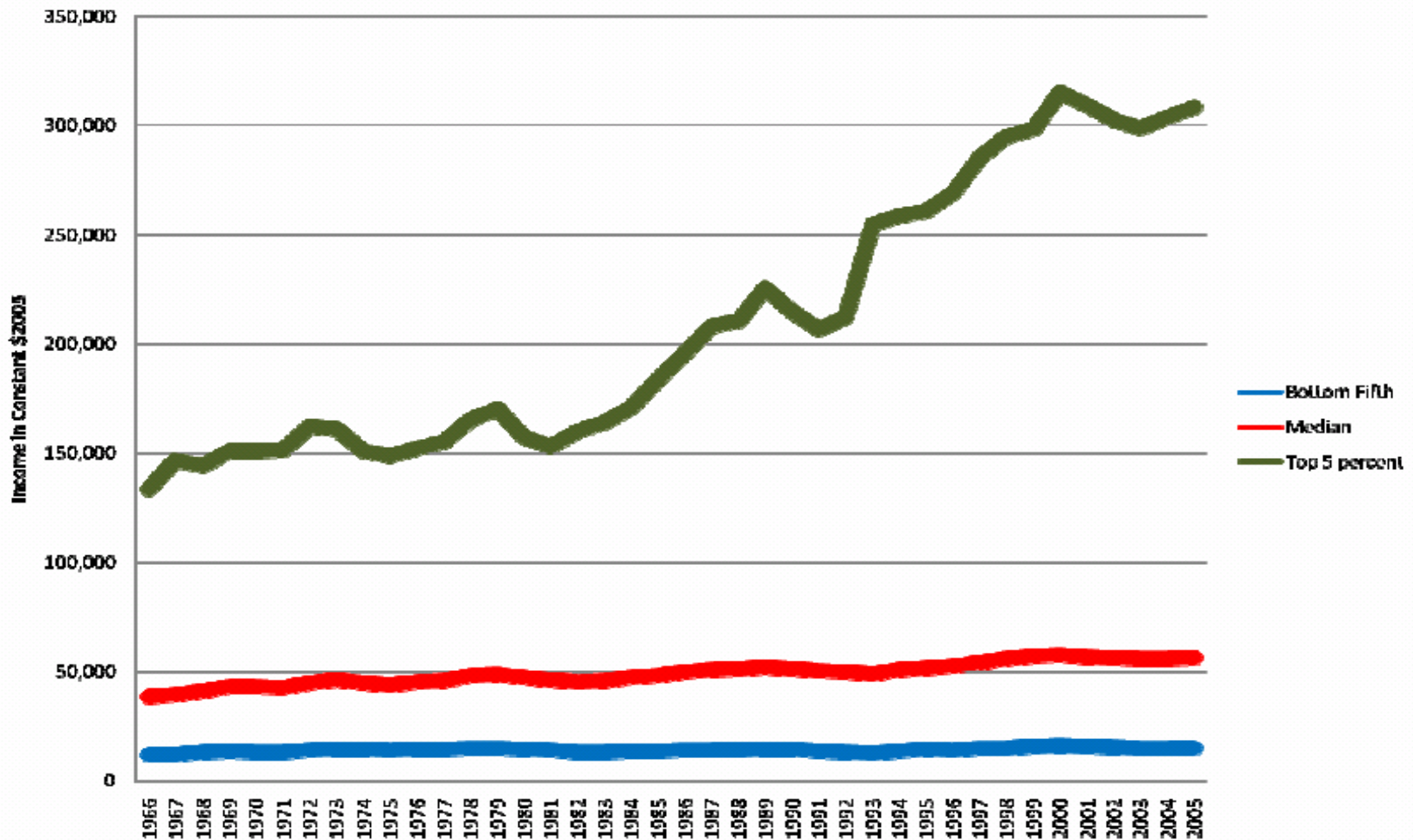
A NETWORK FOR IDEAS & ACTION

www.demos.org



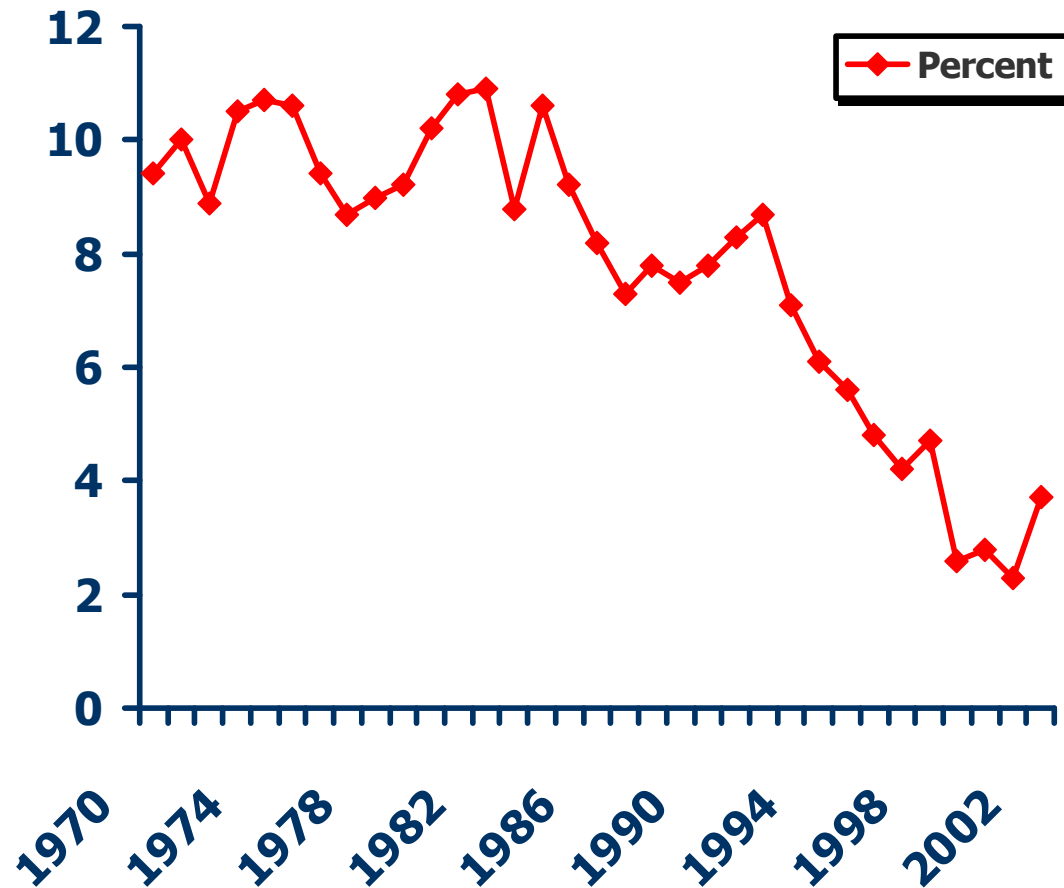
Median Incomes

Since 1980 Avg. Income of Richest 5 Percent has Almost Doubled While Median and Poor American Families struggle to stay in place





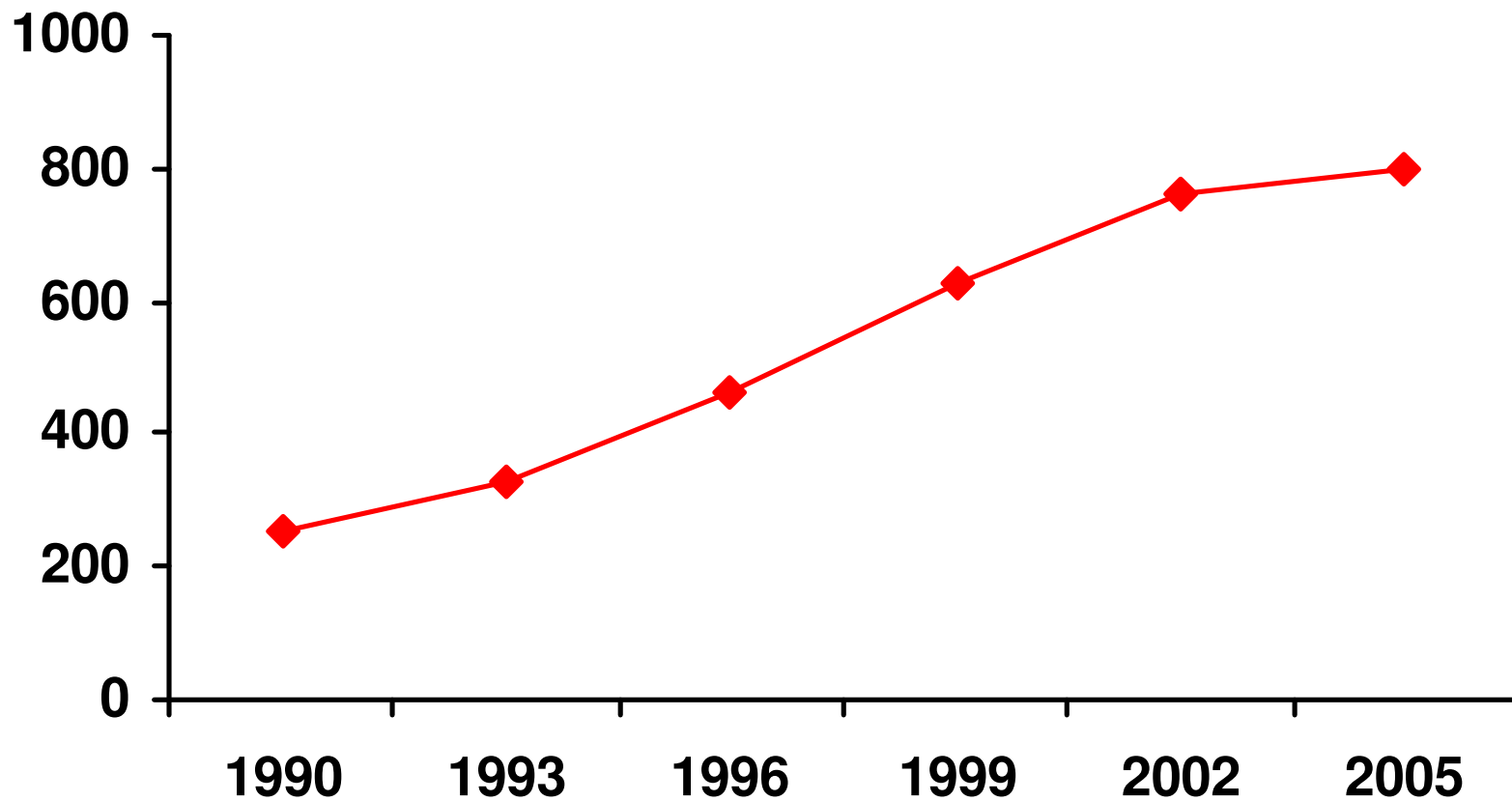
Savings As Percent of Disposable Income



Source: Bureau of Economic Analysis



Household Credit Card Debt (in billions)



Source: Federal Reserve Board



Mean/Median Amount of Debt

Mean:

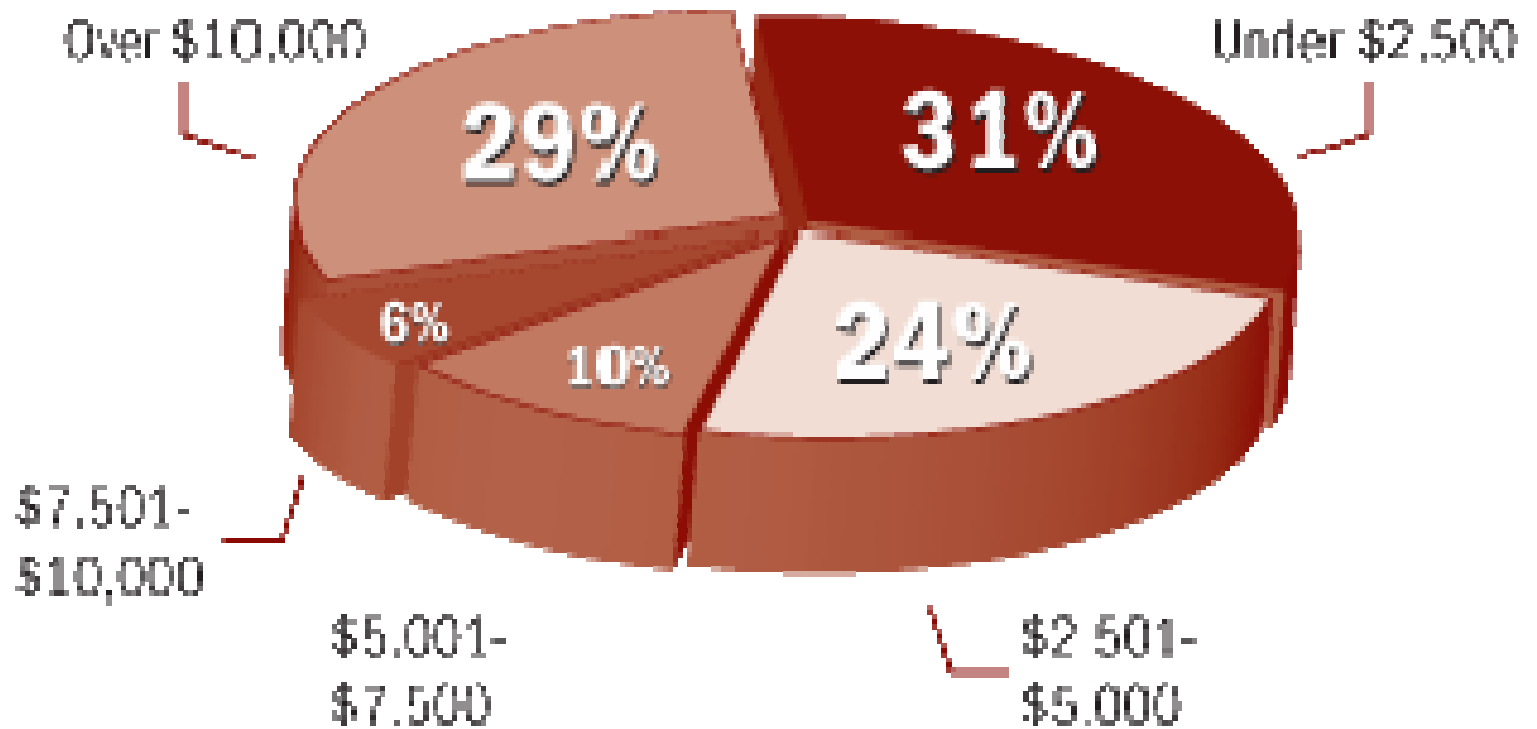
\$8,386

Median:

\$5,000



Level of Credit Card Debt





Length of Time in Debt

Mean:

3 ½ Years (43 months)

Median:

2 ½ Years (30 months)



Reasons for Debt

- 48% car repairs
- 38% home repairs
- 34% major household appliance
- 29% an illness or medical expense
- 25% a layoff or job loss
- 21% college tuition and expenses



Borrowing for the Basics

- Over 1/3 of households reported using credit cards in the past year to pay for basic living expenses

Average number of months: 4

Median number of months: 3



Predictors of Higher Debt

- Why do some households have higher credit card debt than others?
- Regression results:
 - Households reporting a layoff or major medical expense more likely to have higher relative debt
 - Higher relative debt due to use of credit cards to pay for basics



Borrowing to Stay Healthy

- Higher credit card debt and larger amounts among medically indebted households

Medically Indebted

\$11,623

Average debt

44%

Debt over \$10K

Non-Medically Indebted

\$7,964

Average debt

26%

Debt over \$10K



Hidden Credit Card Debt

- 40% of homeowners had refinanced their home in the past 3 years
- Over half used the money to pay off credit card debt
- Amount paid off:
Mean: \$12,000 **Median:** \$10,000
- Amount households still had in credit card debt: \$14,000 on average



Debt for Diploma System



The Debt-for-Diploma System

Average Debt for Associate Degree:

1992: \$3,300

2004: \$6,100

Average Debt for Bachelor Degree:

1992: \$9,200

2004: \$19,300



Higher Costs

Public 2-Year:

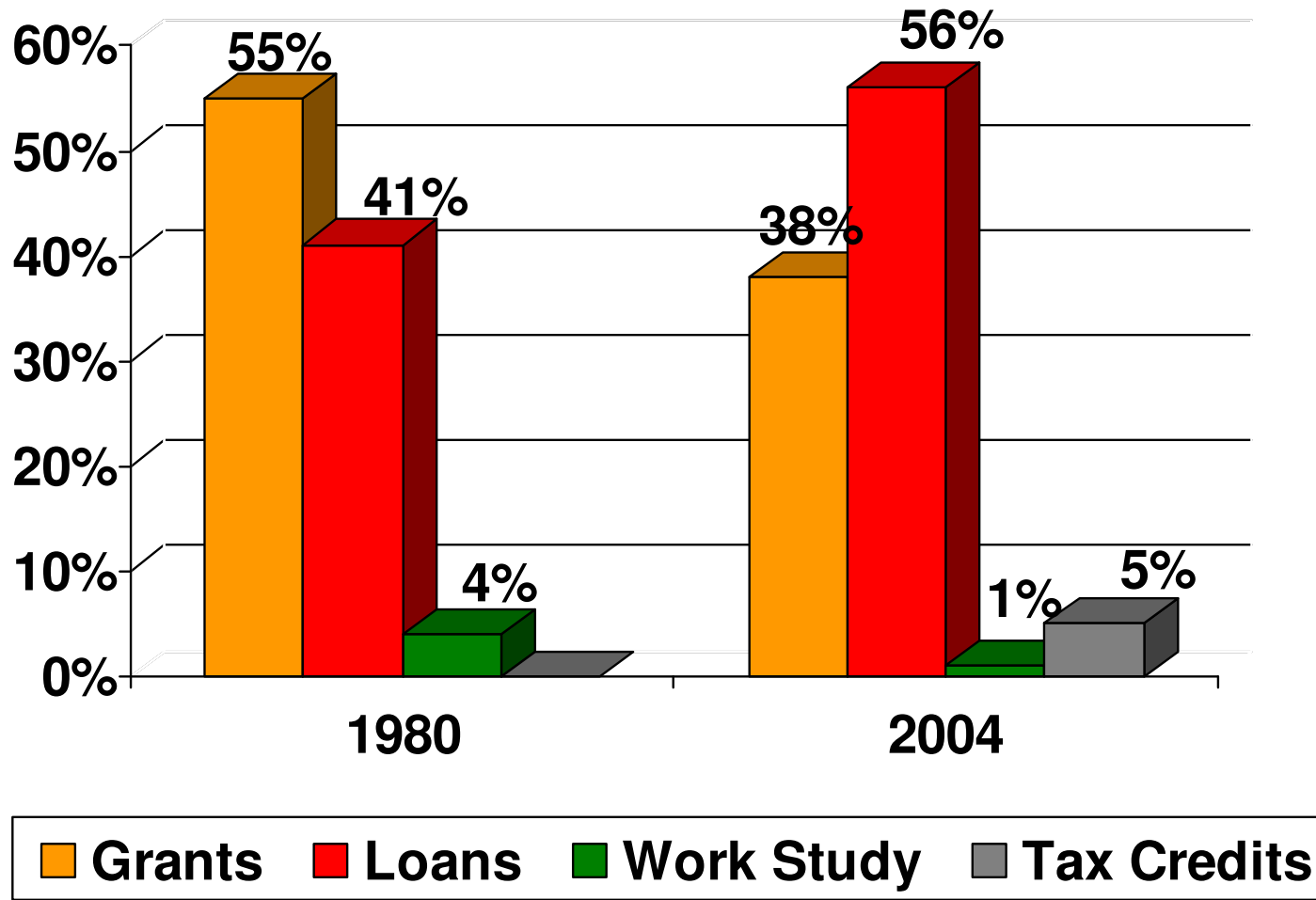
- ✓ 1976: \$913 (2004 dollars)
- ✓ 2004: \$2,076

Public 4-Year:

- ✓ 1976: \$1,992 (2004 dollars)
- ✓ 2004: \$5,132



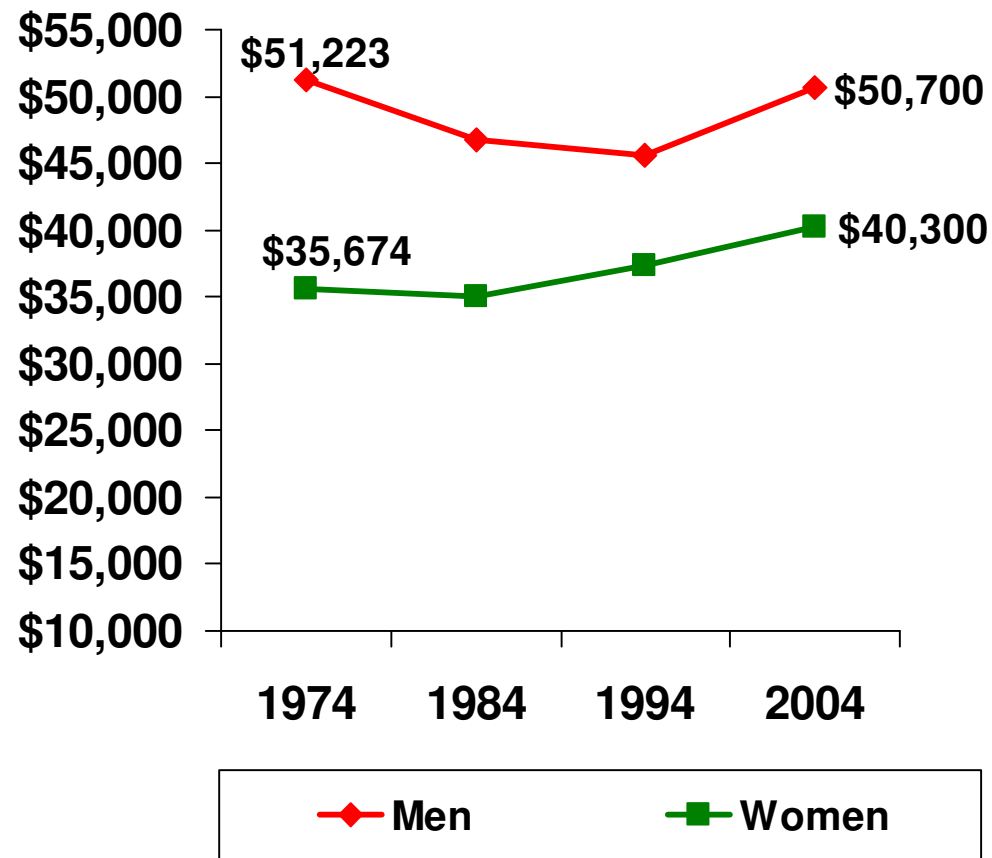
Financial Aid Shift



College Board. Trends in Student Aid, 2004.



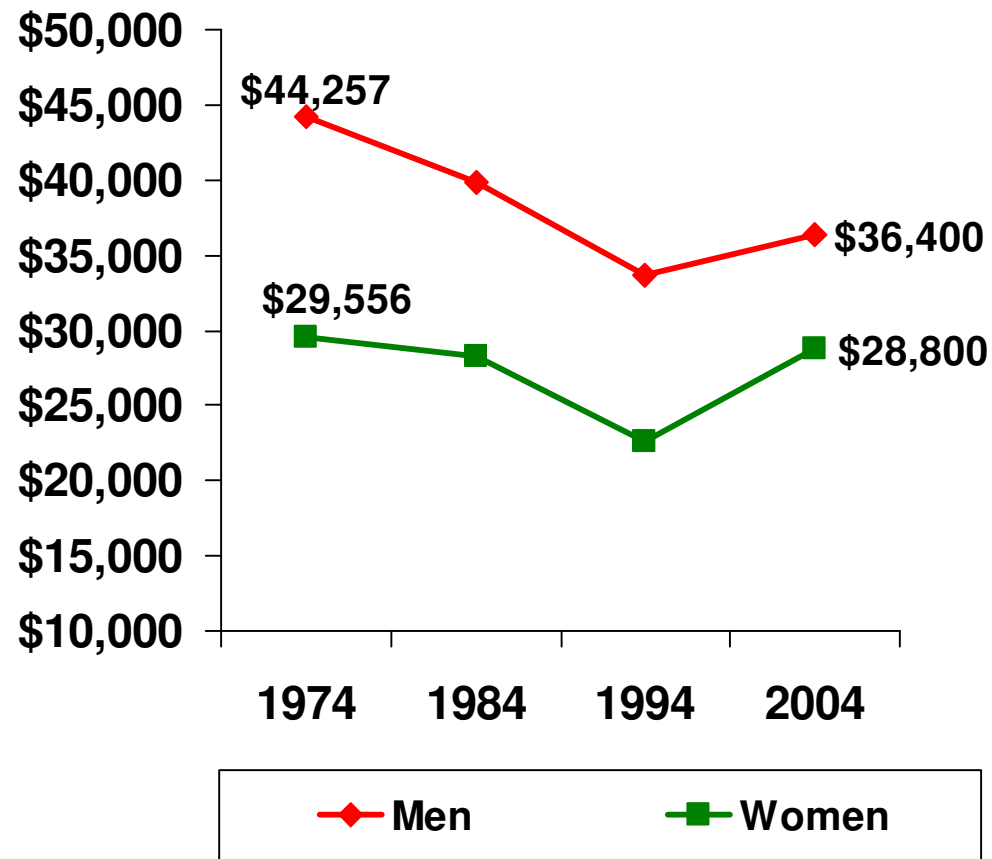
Median Earnings, Workers Aged 25-34 with Bachelor's or Higher (2004 dollars)



Source: National Center for Education Statistics, based on data from US Department of Commerce, Bureau of the Census, Current Population Survey, March Supplement, 1972-2004.



Median Earnings, Workers Aged 25-34 with Some College (2004 dollars)



Source: National Center for Education Statistics, based on data from US Department of Commerce, Bureau of the Census, Current Population Survey, March Supplement, 1972-2004.



Conclusion

- Address “Demand” for High Cost Credit
 - ✓ Enhanced Savings Incentives
 - ✓ Better Protections Against Income Volatility
 - ✓ Health Insurance Costs
- Re-orient federal financial aid back to a grant-based system
- Pressure states to stabilize higher education funding