UNITY IN DIVERSITY: Building a strong association and a stronger profession

MSFAA

Michigan Student Financial Aid Association
Stuck in the Middle: The Dilemma of Middle Income Families

Presented by:
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Who is the Middle Class?

“My family’s household income is $250,000 a year, but I promise you I am middle class. I live in a $2 million dollar house, but I promise you I am still middle class. It has one story, doesn’t have a pool or its own movie theater. It is a modest three-bedroom, two-bath.”

Student columnist with The Michigan Daily, February 16, 2015

- **Middle class** is a socioeconomic term, whereas **middle income** is a calculable number. So, **middle class** involves perceived reality and is relative.
Middle-Income or Middle Class?

The terms “middle income” and “middle class” are often used interchangeably. This is especially true among economists who typically define the middle class in terms of income or consumption. But being middle class can connote more than income, be it a college education, white-collar work, economic security, owning a home, or having certain social and political values. Class could also be a state of mind, that is, it could be a matter of self-identification (Pew Research Center, 2008, 2012).
Trends in College Pricing 2015

In 2014 median income for all families headed by individuals ages 45 to 54 - the age bracket of most parents of traditional age college students was: $84,524
According to a recent study by the Pew Research Center:

- Middle-income Americans are adults whose annual size-adjusted income is two-thirds to double the national median size-adjusted household income.
What is Happening to the Middle Income?

Less Than Half Of Adults Now Middle Class

The middle class, which has long made up the majority of the U.S. population, finally dipped below 50 percent in 2015. Pew defines middle-class income as at least two-thirds of the U.S. median household income, but no more than double the median.

<table>
<thead>
<tr>
<th>Year</th>
<th>Middle Income</th>
<th>Lower Income</th>
<th>Upper Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>49.9%</td>
<td>29.0%</td>
<td>21.1%</td>
</tr>
<tr>
<td>2011</td>
<td>50.6%</td>
<td>29.3%</td>
<td>20.1%</td>
</tr>
<tr>
<td>2001</td>
<td>53.7%</td>
<td>27.8%</td>
<td>18.5%</td>
</tr>
<tr>
<td>1991</td>
<td>55.7%</td>
<td>27.3%</td>
<td>16.9%</td>
</tr>
<tr>
<td>1981</td>
<td>58.6%</td>
<td>26.2%</td>
<td>15.2%</td>
</tr>
<tr>
<td>1971</td>
<td>60.8%</td>
<td>25.2%</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

Notes
Some years may not add up to 100 percent due to rounding.

Source: Pew Research Center

- According to a recent study by the Pew Research Center
  - Middle income families are now in the minority
  - And have fallen further behind financially, with their median income down 4 percent compared with the year 2000
Pew Study: The wealth gap between upper-and middle-income families is growing

- Median net-worth of families, in 2014 dollars
GOOD JOBS ARE BACK: College Graduates Are First in Line

<table>
<thead>
<tr>
<th></th>
<th>Average annual earnings (FTFY)</th>
<th>Share of workers who are full-time</th>
<th>Share of workers with employer-provided health insurance</th>
<th>Share of workers with employer-provided retirement plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good jobs</td>
<td>more than 53,000</td>
<td>86</td>
<td>68</td>
<td>61</td>
</tr>
<tr>
<td>Middle-wage jobs</td>
<td>32,000-53,000</td>
<td>80</td>
<td>54</td>
<td>46</td>
</tr>
<tr>
<td>Low-wage jobs</td>
<td>less than 32,000</td>
<td>62</td>
<td>33</td>
<td>25</td>
</tr>
</tbody>
</table>

- Middle-wage jobs, as defined in this report, are jobs in the middle third by median wages of the occupations in which they are classified.

- Middle-wage jobs pay $32,000 to $53,000 per year for a full-time, full-year worker.

*Source: Georgetown University Center on Education and the Workforce Study*
The Great Recession was a major hit to the U.S. labor market, and the slow pace of economic recovery has left many people apprehensive about embracing any positive news on the jobs front.

Good jobs for college graduates are leading the recovery.
College Enrollment by Sector in 2011-12

- **Public 4-year**: 37%
- **Public 2-Year**: 32%
- **Private Nonprofit 4-Year**: 16%
- **For-Profit**: 10%
- **< 2 Year or more than 1 institution**: 5%

Dependent Undergraduates
Source: National Postsecondary Student Aid Study (NPSAS) 2012
Where Do Middle Income Students Attend College?

2011-12 Dependent Undergraduate Student Enrollment:

Middle Income

- % of students enrolled in public and private nonprofit 4-Yr institutions is positively correlated with family income

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Public 4-Year</th>
<th>Private Nonprofit 4-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Middle-Income</td>
<td>35%</td>
<td>15%</td>
</tr>
<tr>
<td>Upper Middle-Income</td>
<td>38%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Dependent Undergraduates
Source: National Postsecondary Student Aid Study (NPSAS) 2012
What About Community Colleges?

2011-12 Dependent Undergraduate Student Enrollment:
Middle Income

Public 2-Year

- Lower Middle-Income: 36%
- Upper Middle-Income: 31%

Remember 32% of dependent students (all income groups) attend Public 2-Year institutions.

Source: National Postsecondary Student Aid Study (NPSAS) 2012
Middle Income and Net Price
What is Net Price?

Total Cost of Education

MINUS

Grants and Scholarships

EQUALS

Net Price
Federal Net Price - National Averages by Sector

2012-13 National Average Federal Net Price By Sector

- Public, 4-Year: $11,877
- Private, Not for Profit 4-Year: $20,622
- Private, For Profit 4-Year: $21,537
- Public, 2-Year: $7,316

Source: US Dept of Education: College Affordability and Transparency Center
Federal Net Price - A Sample of Michigan Institutions

2013-14 Average Federal Net Price
Family Incomes $48,001-$75,000

Source: College Navigator – National Center for Education Statistics
Federal Net Price - A Sample of Michigan Institutions

2013-14 Average Federal Net Price
Family Incomes $75,001-$110,000

Source: College Navigator – National Center for Education Statistics
Federal Net Price - A Sample of Michigan Institutions

2013-14 Average Federal Net Price
Family Incomes $110,000 and more

Source: College Navigator – National Center for Education Statistics
Net Price and grant aid for middle-income

- Middle income families do benefit from grant aid

- **Public 4-Yr Sector:**
  - Dependent students from lower-middle quartile received an average $6,670 in grant aid
  - Dependent students from the upper-middle income quartile received an average $2,920 in grant aid

- **Private Nonprofit 4-Yr Sector:**
  - Dependent students from lower-middle quartile received an average $20,350 in grant aid
  - Dependent students from the upper-middle income quartile received an average $15,390 in grant aid

Source: Paying for College: Students from Middle-Income Backgrounds by Ma (College Board)
The Middle Income and Student Loan Debt

BORROWING HAS GENERALLY INCREASED OVER TIME
MEDIAN LOAN DEBT IS SLIGHTLY HIGHER FOR MIDDLE-INCOME FAMILIES

Student loan debt by parental income
2010 – lower middle $30-64.9K Upper Middle $65-105.9K
% = percentage of students borrowing
Source: NCES, NPSAS 2004, 2008, and 2012; calculations by Ma (College Board)
The Middle Income and Student Loan Debt

BORROWING HAS GENERALLY INCREASED OVER TIME
MEDIAN LOAN DEBT IS SLIGHTLY HIGHER FOR MIDDLE-INCOME FAMILIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Lowest</th>
<th>Lower-Middle</th>
<th>Upper-Middle</th>
<th>Highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$24,200</td>
<td>$23,900</td>
<td>$23,600</td>
<td>$20,700</td>
</tr>
<tr>
<td>2008</td>
<td>$21,500</td>
<td>$24,700</td>
<td>$22,800</td>
<td>$20,800</td>
</tr>
<tr>
<td>2012</td>
<td>$22,500</td>
<td>$28,000</td>
<td>$29,000</td>
<td>$25,800</td>
</tr>
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</table>

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2010 – lower middle $30-64.9K Upper Middle $65-105.9K
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What is Affordable?

Lumina Foundation “A Benchmark for Making College Affordable: The Rule of 10”; August 2015

“Students should pay no more for college than the savings generated through 10 percent of discretionary income for 10 years and the earnings from 10 hours a week while in school.”

Suggests that students can contribute ~ $3.6K from earnings.

Suggests that student loans should not be used to meet need.
What is Affordable? Lumina Version

- Upper-middle-income family of four: A family making an average of $100,000 annually over 10 years might be able to contribute $51,500, based on a savings estimate of $429/month during that time. Any students in the family could also contribute $3,625 per year for each year of postsecondary education. If the family had only saved $10,000 to contribute to college at the time of a student’s entry to college, the family would still be responsible for the remainder which could, for instance, be contributed via a combination of money from current earnings, additional work, or loans.

\[
\text{in each of these scenarios, the student could also contribute an additional } \$14,500 \text{ ($3,625 per year) from work over the course of four years to the total cost of attendance (including living expenses) for an educational program.}
\]
What is Affordable? The Family Answer

### 2014 CIRP Freshman Survey
Weighted National Norms—All Respondents

<table>
<thead>
<tr>
<th>How much of your first year’s educational expenses (room, board, tuition, and fees) do you expect to cover from each of the sources listed below?</th>
<th>All Bacc Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family resources (parents, relatives, spouse, etc.)</td>
<td></td>
</tr>
<tr>
<td>None</td>
<td>23.2</td>
</tr>
<tr>
<td>Less than $1,000</td>
<td>10.7</td>
</tr>
<tr>
<td>$1,000 to $2,999</td>
<td>11.6</td>
</tr>
<tr>
<td>$3,000 to $5,999</td>
<td>10.8</td>
</tr>
<tr>
<td>$6,000 to $9,999</td>
<td>9.2</td>
</tr>
<tr>
<td>$10,000 or more</td>
<td>34.5</td>
</tr>
</tbody>
</table>

56.3%: $0-$6,000
Discussion and Questions

- Does the self-reported freshmen family contribution surprise you?

- What are some of your experiences when you discuss the reality of loans with your middle income families?
  - How do you explain the value proposition to a middle income family?

- Do you discuss an “affordability fit” when counseling middle income families about the college application process?
Additional Reading

- The Pew Research Center: “The American Middle Class is Losing Ground – no longer the majority and falling behind financially”
http://www.pewsocialtrends.org/2015/12/09/the-american-middle-class-is-losing-ground/

- Georgetown University Center on Education and the Workforce. “Good Jobs are Back: College Graduates are First in Line.”

- United States Census Bureau. “State Median Income.”
https://www.census.gov/hhes/www/income/data/statemedian/index.html

http://www.census.gov/programs-surveys/cps.html

Thank You