

## The Relationship Between Student Loan Debt and Financial Wellness

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Attending college is considered an investment in human capital with expectations of returns in the future for employment and financial well-being. To gain competitiveness in the labor market, an increasing number of students are enrolling in colleges and universities. Combined with the rising costs of tuition, the burden of student loans on individuals and families has increased to more than \$1.27 trillion (FinAid | Loans | Student Loan Debt Clock, 2015). The burden on young households (head of household under 40 years old) is evident as reported by the Pew Research Center (2014), finding that between 1989 and 2010 the proportion of young households with student debt increased by 131% (16% in 1989, 37% in 2010). Recent graduates are carrying an average loan balance of \$25,600 (College Board, 2015). The purpose of this study was to examine how this is impacting the financial wellness of young households.

Financial wellness is a part of the daily lives of individuals, families, and households and may be related to many aspects of someone's life and financial situation. It can be defined as "a comprehensive, multidimensional concept incorporating financial satisfaction, objective status of financial situation, financial attitudes, and behavior" (Joo, 2008, p. 21). Financial wellness is conceptualized as containing objective status, financial satisfaction, financial behavior, and subjective perception (Joo, 2008). This study adds to the growing body of literature on financial wellness with a specific look at the burden of student loans. Hiltonsmith (2013) suggested student debt has long-term financial consequences for households adding stress to those burdened with student loans.

The data used for this study came from the 2012 National Financial Capability Study (NFCS) State-by-State Survey Instrument sponsored by the Financial Industry Regulatory Authority (FINRA). In order to study young families and college graduates, the final sample was 6,866. Dropped from the sample were respondents over the age of 45 and respondents still in high school.

For the dependent variable, an index was created to measure financial wellness, using 12 variables representative of the four areas identified by Joo (2008). All individual variables were coded as binary variables (0 or 1), with one being equal to the concept leading to greater financial wellness. Twelve variables were added together to create an index with a higher score indicating higher financial wellness for the respondent. The range of scores for the index was 0-12 with a mean of 7 (SD=2.6). The key independent variable, the presence of student loans, was measured by the question "Do you have any student loans" and was coded 1 for yes and 0 for no. The other control variables, also binary, represent demographic measures and included: gender, race, marital status, presence of dependent children at home, employment status, education, and income.

Preliminary results from the OLS regression indicate the presence of a student loan had a significant negative relationship with financial wellness. Also significant was financial education, which was positively associated with financial wellness. Education and income were positively associated with financial wellness as was being employed.

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Our findings support Joo's (1998) findings that stressful financial events reduce financial wellness, as carrying student loan debt could create financial stress. As the demand for college degrees increases, the rising costs of attending college become a challenge for many students. The decisions students make about financing their education may have impacts far beyond their debt payments, it stands to impact their overall financial wellness. This work contributes to the growing body of literature in the field of financial planning, counseling, and education, as both researchers and practitioners seek to further understand the long term effects of carrying student loan debt. A better understanding will help those advising students on how to finance higher education and will allow practitioners to help clients improve their overall financial wellness years after completing a degree but while still paying for it.

### References

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