Predictors of Holding Student Loans and Receiving Government Assistance

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Introduction

Student loans have increased drastically over the past twenty years as the demand for college degrees in the workplace has continued to rise (Baker et al., 2017; Cho et al., 2015; Johnson et al., 2016; Johnstone, 2005). In 2021, the student loan debt in the United States reached a total of $1.71 trillion, and the average student loan borrower holds approximately $37,000 in student loan debt (Friedman, 2021). Many individuals and families struggle to meet their student loan payments. In situations where individuals are unable to repay their student loans for reasons such as not being able to find jobs that pay enough or not completing their college degree, student loans can lead to increased poverty, which is also a salient problem in the United States.

Government assistance (GA) was created with the goal to support those in financial need until they are able to maintain their basic financial necessities. Among government programs that provide low-income families with assistance, Medicaid and the Supplemental Nutrition Assistance Program (SNAP) are two of the largest government assistance programs (Hastings & Shapiro, 2018). In 2019, 72.5 million Americans received Medicaid, and 38 million individuals were enrolled in SNAP (Center for Medicare & Medicaid Services, 2020; Nchako & Cai, 2020).

In previous literature, several studies have examined factors associated with holding student loans and the impact of student loans on financial behaviors and well-being (Cherney et al., 2020; Elliott & Lewis, 2015; Henager & Wilmarth, 2018; Mezza et al., 2020). However, little is known about the connections between holding student loans, poverty, and receiving government assistance; thus, research is needed that examines associations between holding student loans and receiving government assistance.

Methods

This study employed data from the 2018 FINRA Investor Education Foundation's National Financial Capability Study (NFCS). In this study, we compared financial literacy and socio-economic differences in four groups of individuals: 1) those who hold no student loans and do not receive government assistance (*secure individuals*), 2) those who have student loans but are not receiving government assistance (*loaners*), 3) those who have both student loans and receive government assistance (*GA loaners*), and 4) those who do not hold student loans and are receiving government assistance (*receiving GA*). Our research question was, "What factors associated with the probability of being in each of these groups?" We conducted a multinomial logistic regression analysis to investigate predictors of belonging in these different groups.

Results

The multinomial logit results showed that higher objective financial knowledge was negatively associated with the likelihood of being in the *GA loaners* or *receiving GA* groups, but, was positively associated with the likelihood of being in the *loaners group*. Looking at subjective financial knowledge, higher subjective financial knowledge was positively associated with the likelihood of being in the *GA loaners* group, but, was negatively associated with being in the *loaners group*. Those with higher financial self-efficacy were less likely to be in the *receiving GA* group compared to those with lower financial self-efficacy. In addition, those with the ability to come up with $2,000 in an unexpected situation were less likely to be in the *GA loaners* or receiving *GA groups*.

As for socio-economic characteristics, unmarried individuals were more likely to be in the *receiving GA* group, but were less likely to be in the *loaners group* compared to their married counterparts. Multinomial logit results show that those with more financially dependent children were more likely to be in the *GA loaners* or *receiving GA* groups than those with fewer children. In addition,

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millennial/Gen-Z and Gen X-ers were more likely to be in the *loaners* or *GA loaners* groups, but they were less likely to be in the *receiving GA* group compared to older generations (baby boomers and the silent generation, age 53-84). Similarly, men were more likely to be in the *GA loaners* group, but, were less likely to be in the *loaners* group than women. Black individuals were more likely to be in the *GA loaners* group, but were less likely to be in the *receiving GA* group than their White counterparts. Asian/other individuals were less likely to be in the *loaners* or *receiving GA* groups than White individuals, while Hispanic individuals were more likely to be in the *loaners* group, and were less likely to be in the *GA loaners* group than White individuals. Those who did not have a college degree were more likely to be in the *receiving GA* group, and were less likely to be in the *loaners* group compared to those with a post-college degree. As for economic status, unemployed individuals were more likely to be in the *GA loaners* or *receiving GA* groups as compared to employed individuals. Homeowners were more likely to be in the *GA loaners* group, but were less likely to be in the *loaners* group than renters. Those with an income of less than $25,000 and those with an income of $75,000-$99,999 were more likely to be in the *GA loaners* or *receiving GA* groups than those with an income of more than $100,000.

This study found that there is an important association between financial capability and the probability of being in each of the four groups. The findings imply that financial capability may play an important role in influencing individuals' economic positions, as financial capability impacts important economic decisions such as taking out student loan debt (Xiao et al., 2020). Policy focusing on improving financial knowledge and capability may be crucial in reducing both student loan debt and reliance on government assistance.

Significant gender differences were found, as men were more likely to be in the *GA loaners* group, but, were less likely to be in the *loaners* group than women. The findings imply that more attention needs to be given to help men better manage their student loan debt. The findings across race/ethnicity showed that significant differences existed across racial/ethnic groups. These findings suggest the need to ensure that financial education and access to student loans are catered to the specific cultural needs of these different groups.

Overall, across the four groups, we found that the *receiving GA* group (i.e., those who are receiving government assistance but do not hold student loans) appeared to be the most economically vulnerable. Specifically, those who did not have a college degree were more likely to be in the *receiving GA* group and were less likely to be in the *loaners* group compared to those with a post-college degree. Thus, while both of these groups are below poverty rates to a degree that qualifies them for government assistance, measures of economic vulnerability were more likely to significantly increase the probability of belonging to the *receiving GA* group than to increase the probability of belonging to the *GA loaners* group.

Discussion

The findings highlight the need for policy makers and financial educators to focus on improving financial knowledge and capability through effective financial education programs in order to help reduce student loan debt. Continued research is needed to understand the selection effects of obtaining student loans in the first place; however, these results suggest that student loans may have helped place individuals in better financial situations by providing them access to education and better employment. In regards to policy, this highlights that despite the current student loan crisis, the access to college education appears to be instrumental in reducing poverty. However, various measures of economic vulnerability still significantly increased the probability of belonging to the *loaners* and *GA loaners* groups. Taken together, these results speak to the need of not just providing increased access to student loans but rather to improving financial education related to student loans, as well as student loan policies that decrease or cap what public institutions can charge in tuition and student fees.

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