The Fiscal Bluff

Charles Caramello
University of Maryland

Council of Graduate Schools
December 5, 2012
Contents

I. Contexts and Drivers
II. Funding Graduate Education
III. Financial Literacy
IV. Some Good News
I. Contexts and Drivers
Appropriations and Enrollments

- **Reduced state funding for public higher education**: states are spending 20 percent less in inflation-adjusted dollars on higher education than a decade ago.

- 7.6 percent decline in state appropriations for higher education in FY 11-12 -- largest annual decline in half a century.

- After five-year drop, funding levels lower in 29 states than in 2006-07.

- **Increasing enrollment rates in public colleges and universities**: full-time enrollment up by one-third over past decade (since 2000).

- In FY 11-12, almost 60 percent of Americans aged 18 to 24 enrolled in higher education.

- Declining appropriations + expanding enrollments = average per capita funding for full-time students dropped 23 percent over past decade after rising modestly during the 1980s and 1990s.
More students enter GS to defer job market and increase marketability.

More parents finance graduate students because more students going straight from UG to GS.

More tax payers feel entitled to access to public higher education.

More leaders outside and inside higher education call attention to ethical responsibility of institutions to students.
Financial Aid Conversations

1. Not only financial and not always rational
2. Involves psychological dimensions and emotional investments
3. Requires managing expectations
4. Demands financial literacy
II. Funding
Graduate Education
FINANCIAL BENEFITS OF GRADUATE EDUCATION
# Education and Training Pay

<table>
<thead>
<tr>
<th>Unemployment Rate in 2011</th>
<th>Mean Earnings in 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
</tr>
<tr>
<td>2.4</td>
<td>Professional Degree</td>
</tr>
<tr>
<td></td>
<td>$143,163</td>
</tr>
<tr>
<td>2.5</td>
<td>Doctorate Degree</td>
</tr>
<tr>
<td></td>
<td>$115,530</td>
</tr>
<tr>
<td>3.6</td>
<td>Master’s Degree</td>
</tr>
<tr>
<td></td>
<td>$84,423</td>
</tr>
<tr>
<td>4.9</td>
<td>Bachelor’s Degree</td>
</tr>
<tr>
<td></td>
<td>$69,638</td>
</tr>
<tr>
<td>6.7</td>
<td>Associate Degree</td>
</tr>
<tr>
<td></td>
<td>$49,275</td>
</tr>
<tr>
<td>8.7</td>
<td>Some College, No Degree</td>
</tr>
<tr>
<td></td>
<td>$46,567</td>
</tr>
<tr>
<td>9.4</td>
<td>High School Graduate</td>
</tr>
<tr>
<td></td>
<td>$40,900</td>
</tr>
<tr>
<td>14.1</td>
<td>Less Than High School</td>
</tr>
<tr>
<td></td>
<td>$30,850</td>
</tr>
</tbody>
</table>

Note: Earnings for year-round full-time workers 25 years and over; unemployment rate for those 25 and over.

Source: Bureau of the Census; Bureau of Labor Statistics

Estimated Lifetime Earnings by Degree

Estimated average lifetime earnings by education level. (in current dollars)

Source: Authors’ analysis of March CPS data, 2008

- PhD: $4,029,948
- Professional degree: $4,650,588
- Master’s degree: $3,837,239
- Bachelor’s degree: $3,380,060
- Associate’s degree: $2,254,765
- Some college: $2,239,548
- High school graduate: $1,767,025
- High school dropout: $1,198,447
Traditional Funding Sources

A. Fellowships

B. Assistantships

C. Employment salary or other income

D. Employer or other third party support

E. Miscellaneous: Savings, Parents, Spouses, Loans, etc.
STUDENT LOANS AND LOAN ISSUES
A Fiscal Cliff for Students?

- More Students assuming debt, amount of debt carried is higher (CGS).
- Student loans are now second only to home mortgages as the biggest debt Americans are holding.
- Over $100 billion in federal education loans and $10 billion in private student loans originated each year.
- Federal student loan defaults rose sharply last year, especially but not only at for-profit colleges and universities.
Rise in Student Loan Defaults

<table>
<thead>
<tr>
<th>Student Loan Defaults Rising</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of the 3.6 million borrowers who began repaying students loans in fiscal year 2009, 8.8% defaulted within two years.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FOR-PROFIT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2009 15%</td>
<td></td>
</tr>
<tr>
<td>2008 11.6%</td>
<td></td>
</tr>
<tr>
<td>2007 11%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PUBLIC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2009  7.2%</td>
<td></td>
</tr>
<tr>
<td>2008  6%</td>
<td></td>
</tr>
<tr>
<td>2007  5.9%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NOT-FOR-PROFIT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2009  4.6%</td>
<td></td>
</tr>
<tr>
<td>2008  4%</td>
<td></td>
</tr>
<tr>
<td>2007  3.7%</td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Department of Education
The New York Times
# Graduate Education Debt in 2008

<table>
<thead>
<tr>
<th>Graduate &amp; Professional Degree Programs</th>
<th>Percent Borrowing</th>
<th>Cumulative Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master's Degree</td>
<td>55.2%</td>
<td>$31,031</td>
</tr>
<tr>
<td>Doctoral Degree</td>
<td>45.8%</td>
<td>$57,860</td>
</tr>
<tr>
<td>Professional Degree</td>
<td>86.2%</td>
<td>$87,308</td>
</tr>
<tr>
<td>Total</td>
<td>56.4%</td>
<td>$40,297</td>
</tr>
</tbody>
</table>
Two Potential Options

1. Grad PLUS Loans
   • Direct federal loans for graduate students
   • Federally guaranteed and conditions set by government
   • Interest rate of 7.9%
   • Temptation to borrow because of good conditions and rate
   • Unlike PLUS Loans for undergraduates, payment not deferred

2. Advantage Group Advice
   • “‘Stop wasting your money on student loan payments,’ says the Advantage Group Web site. . . . Changes introduced by the Obama administration could allow a graduate making $70,000 a year to reduce monthly payments to $448 a month and ‘have over $100,000 of debt forgiven,’ the Advantage Group says. Terry DeMuth, chairman . . . , said the firm was simply trying to help its clients benefit from the program.” (New York Times, October 16, 2012)
III. FINANCIAL LITERACY
# Financial Literacy

**What is it?**

The ability to understand personal financial opportunities and liabilities in order to enable informed consumer decisions about finances. To be financially literate, one needs to understand:

1. The general economy
2. Money management and budgeting
3. Investment and risk

**Who needs it?**

- **Domestic graduate students** are funding an increasingly greater percentage of their degrees with private and public loans **WHILE** entering graduate school with increasingly larger accumulated debt from undergraduate loans.

- **International graduate students** are not eligible for most federal and state loans, may underestimate living costs and exhaust private funding after first year, and may lack understanding of U.S. employment and tax codes.
Some Current Initiatives

- Campus financial literacy websites with generic and/or custom information, developed in-house and/or purchased from outside vendor.
- Campus and/or other web portals for interactive online budgeting and planning.
- Mandatory life skills classes, generally for undergraduates.
- Available or mandatory counseling for graduate students who pass a “tipping point” of 8% of predicted income earmarked for loan repayment.
EXAMPLES OF CAMPUS WEBSITES
Successful Start

BC’s Financial Literacy Program

NEW! Successful Start was recently featured in the September issue of the Office of Graduate Student Life newsletter. Read how we can help you make wise financial decisions!

Successful Start is now a member of MyBC!

To join, visit https://orgsync.com/join/52349/boston-college-successful-start and select “Boston College” from the drop down menu.

Successful Start Fall 2012 Workshops

Thursday, December 6th, 3:15-4:15, Gasson Hall 204

Student Loan Repayment

Learn about different options for paying back your student loans!

Presented by Kathy Rosa, Associate Director, Student Receivables, Student Services.

Financial Facts

Did you know:

- Your morning latte is costing you big. If you’re purchasing a medium latte every week day, you could be spending $780 in a year! That’s assuming you are only purchasing a plain $3 latte, imagine how much more you’re spending if you’re buying a “fancy” drink or buying multiple coffee drinks each day.

- Eating out every week may be the reason you’re blowing through your budget. If you go out to eat once a week and spend $25 each time, you’re spending an extra $1,300 in a year! That could be a down payment on a car!

- Your regular vending machine purchases could be eating through your savings. If you’re spending $2 per week day on vending machine snacks, you are spending an extra $520 per year! You could use that money to buy a plane ticket for Spring Break.

Need help getting your food spending under control? Check out these helpful articles:

- Eating Well: 25 Tricks to Save Money on Food and Still Eat Well
- Huffington Post: 10 Ways to Save Money Eating Out
- 20 Something Finance: How to Eat at Restaurants for Cheap
- MSN Money: How to Cut Your Food Budget in Half

Download a printable version of the Successful Start Brochure (PDF).

Mission Statement:

The goal of the Successful Start program is to ensure that Boston College’s students are financially literate for their lifetime by offering a series of workshops and seminars, led by Boston College employees and expert guest speakers, related to all aspects of personal financial management.
WELCOME

Financial literacy is an essential life skill—right now and in the future. Furthering your financial literacy begins right here, with a site dedicated to providing you with the critical information you need to keep you informed and to remain a responsible consumer... <more>

Kafui Kouakou, Chairperson of the University Student Senate

Greetings!

Welcome to the City University of New York's Financial Literacy website!

I think we should all be very excited about the innovative resources this forum provides for CUNY students and the entire CUNY community.

<read more>

WHAT'S HAPPENING

FEDERAL GOVERNMENT FINANCIAL AWARENESS COUNSELING TOOL

Learn financial management basics, get current loan debt and history, future debt estimates and more with step-by-step interactive tutorials. Contact your campus financial aid counselor for assistance. >>

FINANCIAL LITERACY WORKSHOP SERIES

Free Workshop on Budgeting, Credit and Savings sponsored by the Hispanic Federation >>

FREE TAX PREPARATION SERVICES

The Single Stop Community College Initiative provides free, on-site tax preparation services during tax season (January - April) >>

CREDIT ABUSE PUBLICIZED IN STUDENTS’ MOVIE PSA

Three budding filmmakers from LaGuardia Community College launch a public service announcement about credit card abuse that is gracing movie screens around the city >>

TIPS FROM A CUNY FINANCIAL AID EXPERT

Alice Murphy, CUNY's director of financial aid management, has been helping students with financial aid issues for more than 30 years. Her advice is published in the New York Daily News. >>

FINANCIAL SUCCESS STORIES

Learn how these students conquered their financial aid challenges. Select a video or visit the College Sense website to find out more!

Borrowing Smart for College

Borrowing Smart

for College

Playlist Financial Literacy (7 videos)

RELEVANT ARTICLES

Welcome To CashCourse
Take a look around. The information here will help you make informed financial decisions throughout your college years and into your professional life.

Get Started

What budget killer can pose the greatest threat to your wallet?

What you need to know:
How to make a budget
Eating healthy on a budget
Understanding paycheck deductions

Resources
- Budget Wizard
- Financial Calculator
- Worksheets
- Quizzes

Videos
- How To Be Credit Savvy

Tips
- 10 tips for protecting personal information
- 25 tips to stretch your dollars
- 40 money management tips

Join Now

Take The Quiz
Students Promoting Financial Literacy workshop

Host Department: students
Date: 11/29/2012
Time: 06:00 PM - 08:00 PM
Location: 3460 Mason Hall (Show map)

Description:

Are you paying for school with loans? Do you plan to take out loans for graduate school? Are you interested in learning more about loans and debt?

The student organization Students Promoting Financial Literacy is hosting a free workshop to educate students about loans and debt on Thursday, November 29th 6-8pm at 3460 Mason Hall. Kristin Bhaumik, the Assistant Director of Special Programs for the Office of Financial Aid, will lead the workshop. Also, there will be free pizza at the event.

RSVP to studentspromotingfinanceillit@gmail.com by Tuesday, November 27th. We hope that you can come!
SOME UMD INITIATIVES
**Financial Literacy**

It is important to be an educated consumer in order to make the most of what we have. This site will discuss basic skills you need to be financially literate as you make important financial decisions with your budgeting, borrowing, maintenance of credit, spending, saving and investing. While preparing you to be a Financial Wizard is beyond the scope of this website, it is our hope that you will be encouraged to continue your journey to financial competency.

Before we proceed, a word about organization and navigation. This website includes several topics. Though each topic can be viewed independently and in any order, it is recommended that you start at the beginning and follow the navigation links at the bottom of each page to ensure that each topic and page is covered.

As you navigate through the site you will see several videos which can be identified with the 🎬 symbol. Links to the videos are also available by visiting Videos to View.

We also offer several short online courses in the Resources section. Clicking on 📚 will display answers to the previous questions.

To start off, please answer the following questions:

- 📚 Who is Ben Bernanke?
- 📚 What is net worth?

Disclaimer: This site should not be considered authoritative financial advice. Your circumstances are unique and you may want to consult a financial advisor.
Information for Graduate Students

Welcome to the Office of Student Financial Aid. Whether you are a prospective student or currently a student, this is where you can find the information you need to finance your graduate degree.

Students enrolled in a graduate program may be eligible for a Federal Direct Loan to finance part of their education. Eligibility is awarded based on the program cost minus any amounts of company sponsorship, tuition remission, etc. received. If the program costs are not met, student can receive up to $20,500 in Direct Loans. Below are answers to questions you may encounter as you apply for aid at the University of Maryland.

1. How much does it cost to attend UMD?
2. How do I find out about graduate assistantships?
3. Is there scholarship or fellowship money that I can apply for?
4. How is financial aid awarded?

Graduate Loan Information

The Department of Education is the lender for all Direct Loans at the University of Maryland. However you may research our list of recommended Alternative Student Loan lenders.

MBA and EMBA Students

Financial aid for EMBA participants differs from the traditional student and the process will vary depending on your program start date. If you are interested in obtaining student loans, select the appropriate start of your program start below:

- Fall-Start
- Spring-Start

Additional information for MBA and EMBA students can be found at www.financialaid.umd.edu/mba/faq.php.

International Students

While not eligible to receive Federal Financial Aid, there are still financing options available to you.

Contact Us

If you have questions or need additional information, please contact us.

http://www.financialaid.umd.edu/osfa/for
BSOS: Test Your Financial Savvy

13 Q & A on borrowing and repayment, big-ticket buying, investing, e.g.,

• If you have a credit card on which you’re carrying a $2,500 balance, and the interest rate is 15%, how long would it take you to pay off if you 1) never made another charge and 2) paid only the minimum monthly payment of the greater of 2.5% of the balance or $10?

  A. 2 years
  B. 5 years
  C. 17 years
  D. 28 years

• During winter break, you worked a short-term job and earned $1,000. You'd like to invest the money until the end of the school year in order to fund a summer travel experience. In the short term, which of the following is your best investment option?

  A. Stocks
  B. U.S. Treasury Bills
  C. CDs
BSOS: Taking Charge of Your Finances:

*PowerPoint Presentation*

- Setting Financial Goals
- Creating a Budget
- Tracking Your Spending
- Savings – Pay Yourself First!
- Understanding Credit
- Credit Reports
- Building a Credit Report
- How Long Does Information Stay on a Credit Report
- Building a Credit Score
- Credit Scores
- Credit Scoring
- Monitoring Your Credit
- Student Credit card Rates
- Debit Cards
- Financial Background Investigation Questions
- Identity Theft
- Useful Information
Graduate School Tax Assistance Program

- Annual program to assist international graduate assistants with preparation of tax documents

_Spring 2012_

- Core of retired volunteers served 382 students in person
- Provided 949 FREE students on line tax preparation service
- 760 students received an average refund of $693
IV. Some Good News
CGS/TIAA-CREF Initiative

- Cooperative project between CGS and TIAA-CREF to enhance the financial literacy of graduate and undergraduate students (announced November 27, 2012).

- Awards to colleges and universities to develop innovative financial literacy programs that can be tailored to students with a range of financial circumstances and educational goals.

- Designed to spark university collaborations for honing student financial skills at a time of declining public funding for education and rising student debt.

- To ensure sustainability, institutions must embed financial literacy programs for graduate students within Preparing Future Faculty or similar career development programs.

- CGS will announce a request for proposals to its member institutions in January 2013.
Not a Housing Bubble

“Student loans are not the next housing bubble because there are many ways available to repay a student loan and because a graduate degree cannot be foreclosed on and seized.”

Sarah Bauder

Assistant Vice President for Enrollment Services Operations and Director of the Office of Student Financial Aid
Question and Answer