

# Graduate indebtedness: its perceived effects on behaviour and life choices – a literature review

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## ▪ Introduction

- Cost-sharing policies, especially tuition fees and student loans, have fuelled the global expansion of higher education and rising participation rates.
- Around the world, student loan debt is rising as growing numbers of students rely on student loans to pay for their higher education while their levels of borrowing are increasing compared with previous decades.
- Yet little is known about the long-term consequences of student loan debt for society as a whole, or for individuals' choices, behaviour, and life events once they have left higher education and later in life.
- This research examines the academic literature regarding the consequences of student loan debt. In particular, it questions what existing research tells us about the effect of student loan debt on post-collegiate life-course outcomes such as postgraduate education, career, home ownership, family formation, health and financial wellbeing.

## ▪ Methodology

This literature reviews builds on searches made using the UCL library Explore search engine. Key search terms included 'student loan' and 'student loan debt' accompanied by search terms related to the life-events of interest (e.g. 'marriage' or 'career'). Books and articles dating back to 1994 were included in the review to incorporate publications related to the Higher Education Reauthorization Act of 1992 in the United States. A snowballing technique was adopted including using the bibliography of relevant articles as well as references to research found in the initial search. The vast majority of the studies found were US-based.

## ▪ Key results

- There is no consensus in the literature on the relationship between pursuing postgraduate studies and student loan debt. This relationship seems to vary extensively depending on students' demographic and background characteristics and institutional characteristics.
- The relationship between student loan debt and career choices is mostly negative, whereby the presence of student loan debt influences these choices. In particular, there is a definite negative relationship between student loan debt and engaging in entrepreneurial ventures. There is, however, no consensus in the literature on the relationship between student loan debt and individuals' earnings.
- The academic literature unanimously finds that having student loan debt is linked negatively to home ownership, including owning lower value properties. Student loan debt is likely to delay home ownership too. It is unclear, however, whether the amount of student debt owed has an effect on home ownership.
- Family formation, including marriage and having children, is probably negatively related to student loan debt but for women only.
- Signs point to a negative association between student loan debt and health, especially mental health, during and after leaving higher education.
- The relationship between student loan debt and lifetime financial wellbeing is also negative. Those with student loan debt have lower levels of net worth, experience more financial distress, and have lower savings and retirement savings.

## ▪ Limitations to current research

Even though we know far more today about the relationship between student loan debt and subsequent life events, the existing literature remains limited in important ways. Recognising the knowledge gains that have been made—and the unavoidable limitations related to gathering nationally representative individual-level data—the key drawbacks of the current research are as follows:

- The current literature is US-centric, reflecting a very particular and diverse higher education system and a specific student loan system with a time-based (mortgage style) repayment scheme. The generalisability of the research findings therefore may be limited, especially for those countries with income-contingent student loan repayment systems such as England.
- Most of the research studies are based on the analysis of secondary datasets, which means they can only paint a partial picture of the issue based on the data available in these datasets. Also, the data are often out-of-date. Finally, the lack of control over the sample means important subpopulations of individuals with student loan debt are excluded, such as non-completers.

- The quality and robustness of some surveys on the topic of student loan debt are questionable. Issues with these surveys include the sampling strategies employed, survey questions, and a lack of documentation. Therefore, generalising from these surveys is problematic.
- The literature is dominated by research undertaken by economists. The inclusion of other academic fields could deepen our understanding of phenomenon of student loan debt.

## ▪ Conclusions

Despite the potential for student loans to affect many areas of an individual's life, remarkably little is known about the existence and magnitude of the relationship between student loans and important life events. Some of these gaps in our knowledge are the result of the scope of the research and its failure to examine a wide variety of life events. Other gaps are associated with the research design, which limits the studies' ability to tease out whether a relationship exists and why it might exist. The inadequacies of the existing research mean we have a very limited grasp of the potential consequences of student loan debt for society as a whole and for individual debtors.

There is much still to learn about how student loans affect borrowers over their lives, and we hope our research will improve our understanding of the multifaceted ways in which student loans may influence decisions and behaviour.

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