

Trends

April 2007
Vol. 7, Issue 12

A Research Newsletter Prepared by the Office of Enrollment, Planning and Public Affairs

Who is in the Middle? Family and Financial Characteristics of Middle Class Students

Four-year colleges in the United States have gentrified significantly in the last thirty years. A recent report by UCLA's Higher Education Research Institute indicates that new entering students today are the best-off in more than three decades. The median income of first-time, full-time new entering students attending four-year colleges in the U.S. in fall 2006 was 60% higher than the national average for all families, compared to 46% above the average in 1971. The report also notes that incomes of students attending public colleges have risen faster than the incomes of students enrolled at private colleges.

The change in family income profile largely derives from the rising educational profile and the occupational profile of parents of new students. First-generation college students make up a smaller percentage of new college students today than they did thirty years ago. And, reflecting their comparatively higher levels of educational attainment, the parents of college students today are overwhelming employed in professional or managerial (typically higher paying) occupations.

While the family income, and the household wealth, of college students has increased substantially, their ability-to-pay or willingness-to-pay for college as the cost of college has risen (generally faster than their incomes) is not as easy to measure. The analysis that follows focuses on the segment of the population typically described as the "upper middle class" – those with family incomes between \$70,000 and \$150,000. The upper middle class collectively represents approximately one-third of all families in the U.S., excluding those with incomes in the top 5%. Students with incomes in that range represented nearly half (47%) of all new entering CSB/SJU students in fall 2006.

Family and Financial Characteristics of Upper Middle Class Families

- Upper middle class status most often is the product of two incomes, not one. Students with family incomes between \$70,000 and \$150,000 are more likely to come from two-earner families than any other group of students. Last fall, 93% of all new CSB and SJU students in this income group reported that both of their parents were in the workforce.
- The upper middle class is distinguished principally by its high levels of educational attainment (from which income, career, and lifestyle opportunities and expectations are derived). Nationally, almost half (48%) of all householders in upper middle class families have completed a baccalaureate degree or more, compared to a national average for all families of just 29%. Almost one in five has earned a graduate degree. Last fall at CSB/SJU, more than 70% of all new entering upper middle class students had at least one parent with a baccalaureate degree, and one in seven reported that both of their parents had earned a graduate degree. For many students from these families, college was the obvious (and perhaps the only) post-high school choice.
- High levels of educational attainment among the upper middle class help fuel the educational (and social and economic) aspirations for their children. Nationally, more than three-quarters of all 18-to-24-year-olds with family incomes between \$75,000 and \$150,000 are enrolled in college, most of them in four-year colleges. Four-year college participation rates for these students are nearly double participation rates for students from families with incomes below \$50,000.

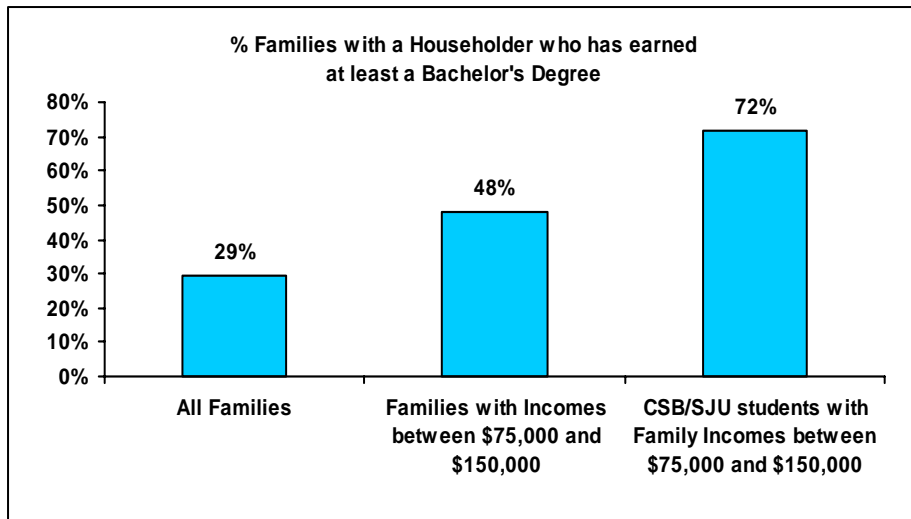
Students from families in the upper middle class represent nearly half of all CSB/SJU students.

Prepared by Jon McGee
Vice President of
Enrollment, Planning and
Public Affairs

COLLEGE OF
Saint Benedict



Saint John's
UNIVERSITY

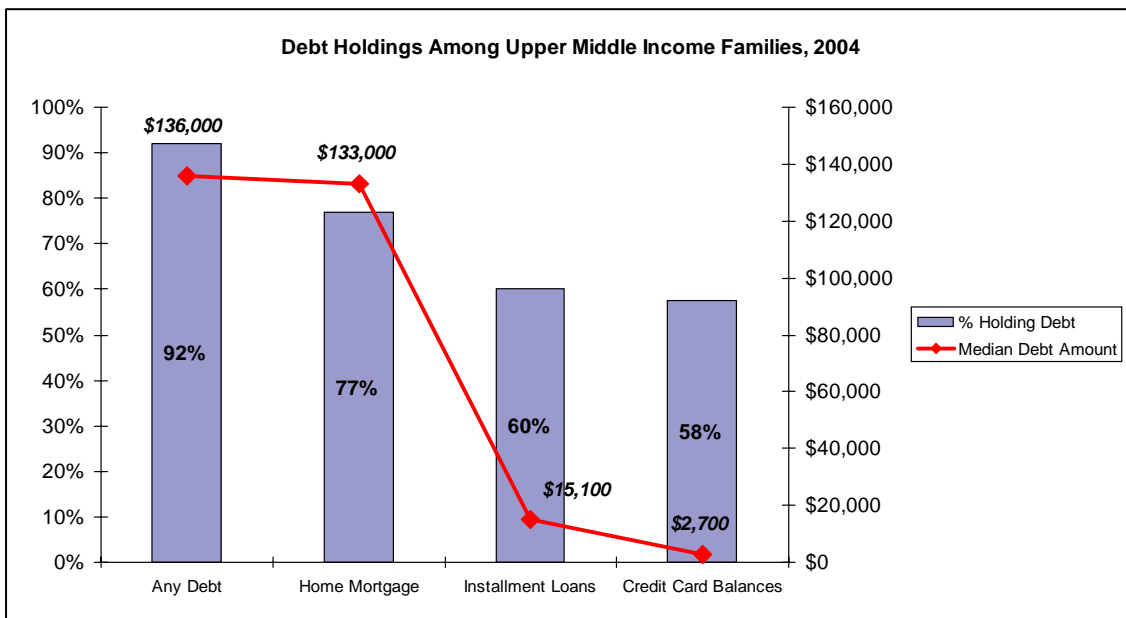


Source: Current Population Survey, 2005; CSB/SJU

Paying for College

In the Midwest, the average price of attendance at private colleges *before financial aid* is equal to more than 40% of the income of 80% of all American families. In spite of their above average incomes (and the lifestyle and aspiration often attached to it), the cost of college matters to upper middle class families. The typical expected parent contribution derived from the federal financial aid needs analysis – the amount families are supposed to be able to pay for college (irrespective of where they attend) – rises sharply with family income. Families with incomes between \$125,000 and \$150,000 typically are expected to pay the equivalent of 20% of their pre-tax income for their children’s college education. From the vantage point of most families, that is an extraordinary investment, and one for which they all too often are not prepared financially.

- The inability or unwillingness of upper middle class families to save contributes to their anxiety about college costs. Last year, national aggregate personal savings as a percentage of total income was negative, the second year in a row spending exceeded savings and the lowest savings rate in 40 years. Personal savings rates have been on a downward trend since 1982. Data collected in the Federal Reserve Board’s *Survey of Consumer Finance* indicates that today between one-third and one-half of all families save nothing on their own.



Source: Federal Reserve Board, *Survey of Consumer Finance*, 2004. Data represent families with incomes between \$89,300 and \$129,400.

- While they often do not save, many upper middle income families borrow heavily to finance current spending. More than 90% of all upper middle class families hold debt of some kind, the highest amount of debt holding among all family income groups. The median value of all debt held by upper middle class families in 2004 totaled \$136,000, up an astonishing 32% since 2001 (largely due to significant increases in mortgage borrowing). Fully 60% of all upper middle class families hold installment loans, and a similar percentage carry credit card balances from month-to-month averaging \$2,700. None of this means that these families are on the precipice of bankruptcy or financial ruin. Nor does it mean that household wealth has not grown – it almost surely has in most cases. It does, however, indicate that families have made value decisions about how to spend money long before their children reach college age which may influence their college choices. In addition, traditional ability-to-pay formulas suggest that these families can finance all or nearly all college expenses at public or private colleges. However, savings data suggest that those formulas may neither be accurate nor meaningful for many or most middle income families.
- Family savings rates among CSB/SJU students often are shockingly low. Similar to families nationally, many parents of students at the College of Saint Benedict and Saint John’s University have not prepared financially for private college (or any college) costs. Among students with family incomes between \$70,000 and \$150,000, the median value of liquid cash savings (including checking accounts, savings accounts, and non-retirement/non-qualified investments) totaled just \$12,100 last fall. The lack of accessible family resources to pay for college (which would exclude retirement and other qualified or non-liquid assets), even among families typically defined as “higher income,” helps explain the rapid increase in student and parent borrowing.

Implications

- The upper middle class has a large political voice. They often have access to political power, they vote, and policymakers typically respond to their needs, interests, and demands. Price and opportunity constraints for these families are recent and unsettling phenomena and they have turned to lawmakers seeking redress. Increasing investments in merit-based aid at many colleges reflects an attempt to meet the “needs” of these families (needs not recognized by standard financial aid formulas). Nonetheless, we can expect their anger and anxiety to intensify if college prices continue to rise faster than their incomes.
- Though not often described this way, the most significant changes in federal higher education policy in last decade have been directed at the upper middle class. Expressed principally through changes in the tax code, signature federal legislation since 1995 has included 529 savings plans, Coverdell IRAs, and education tax credits and deductions. The federal government also has significantly expanded access to student loans. The most significant growth in state grant aid across the country has come in the form of scholarship grants (e.g. Georgia’s HOPE Grant), which has directed significant resources to those who have not demonstrated traditional financial “need.” Unfortunately, it appears that none of those changes has been sufficient to secure access for upper middle class families.
- Over the next ten years, all of growth in the traditional-age college population nationally will occur among lower-middle and lower income students. That group of students is less familiar with college, less likely to have parents who went to college, and much less likely to enroll in college (particularly four-year colleges). They will require enormous amounts of financial assistance to attend and complete college. That new population also will require new college preparation and success strategies. At same time, though, many colleges also will struggle to meet the rising financial needs and demands of upper middle income students. Barring a change in student composition, that, too, likely will require new and costly financial aid strategies and investments.

For additional information, please contact Jon McGee at (320) 363-5287 or jmcgee@csbsju.edu. Past issues of the *Trends* research newsletter are available at <http://www.csbsju.edu/institutionalresearch/trends/>.