The Debt Dilemma: Student Loan Debt and the Minnesota Economy
Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>A State Built on Higher Education</td>
<td>4</td>
</tr>
<tr>
<td>The Changing Higher Education Landscape</td>
<td>5</td>
</tr>
<tr>
<td>The Current State of Student Debt in Minnesota</td>
<td>9</td>
</tr>
<tr>
<td>Student Debt and the Minnesota Economy</td>
<td>11</td>
</tr>
<tr>
<td>Policy Recomendations</td>
<td>16</td>
</tr>
<tr>
<td>Notes and Sources</td>
<td>19</td>
</tr>
</tbody>
</table>
Executive Summary

Minnesotans feel the effects of student loan debt every day. Whether digging out of our own student debt, watching friends and family grapple with debt, trying to sell a home, attempting to hire a skilled worker, or hoping to shop at a local business, student loan debt is a $27 billion dollar challenge for the economic well-being of Minnesota.¹

Student loan debt affects students at every type of higher education institution from professional schools to associate degree programs. Student loan debt is a challenge that every part of our state experiences through worker shortages, deferred homeownership, and diminished small business development.

Higher education continues to be a vehicle for economic mobility, but the choice to pursue higher education comes at an increasing cost that is not borne equally by all Minnesotans. While Minnesota works on adjusting our perceptions about work and learns to value jobs that do not require college degrees, the choice to attend college or not should be available to people regardless of their economic status or family educational attainment.

The fundamentals of our state’s economy such as household formation and homeownership are affected by student loan debt. As we look to policymakers for solutions to the debt dilemma in Minnesota, we also have to decide what problem are we trying to solve - are we just looking forward to the next generation of Minnesota students, or are we also interested in looking back to the generations of people who continue to carry high debt burdens?

The good news is that we know what works. Comprehensive debt forgiveness, reducing the cost of higher education, support for returning students, and additional regulation of for-profit colleges are some of the many solutions that can help address student loan debt.

Higher education is one way that working people and families can get ahead in Minnesota. It is a strategy toward eliminating the racial economic disparities that compromise our future. The dilemma is ensuring that the burden of student loan debt is not holding back the people who stand to benefit the most.
Minnesota has a rich history of investment in higher education. The University of Minnesota was established in 1851 as one of the original land grant universities, which allowed the school to receive federal funds through the Morrill Act and the Hatch Act. The University grew from a graduating class of two to a current student population of about 60,000 across four campuses. The other major public system in Minnesota, Minnesota State Colleges and Universities or Minnesota State, began in 1858 as a variety of institutions focused on regional student needs. It became a consolidated state-wide system of community colleges, technical colleges, and universities in 1991 with seven universities that issue bachelor and graduate degrees and 30 state colleges that grant two-year degrees. There are about 376,000 students in the Minnesota State system.

Undergirding the development of both the University of Minnesota system and the Minnesota State Colleges and Universities system is the notion that for the state of Minnesota and its people and communities to thrive we needed an educated workforce and that higher education systems needed to be a resource to communities and individuals across the state. This philosophy included the University of Minnesota Extension system providing educational opportunities for everything from family nutrition to agriculture. The Universities and Colleges were developed to be something that would serve all people in the state of Minnesota either directly or indirectly.

Higher education continues to fuel Minnesota’s economy. As of 2010 graduates of the University of Minnesota had started almost 10,000 businesses and employ 500,000 people. Minnesota has the third most Fortune 500 companies per capita. About three-quarters of Minnesota’s Fortune 500 companies were founded in Minnesota and many have deep ties to Minnesota higher education institutions for their ongoing operations - they are a source of skilled labor and a source of innovation.

Higher education is also an important resource for Minnesota start-ups and nurtures the entrepreneurs and innovators who lead them. For example, the University of Minnesota Venture Center helped launch 120 startups since 2006 based on technology and ideas developed at the University of Minnesota. Minnesota is also consistently among the top five states for patents issued per capita.

Higher education creates economic benefits across the state of Minnesota. For example, according to research from the Wilder Foundation, in 2011 the Minnesota State system generated $8.3 billion in economic impact on the state of Minnesota and supported almost 81,000 direct and indirect jobs in communities across the state. In 2017 the University of Minnesota had an economic impact of $8.2 billion and supported 77,664 direct and indirect jobs.
The Changing Higher Education Landscape

State support for higher education was an important policy priority that translated into robust state investment in accessible higher education for all Minnesota communities. In 1963 a commitment to accessibility was codified in the 35-mile rule - mandating that a college campus should be accessible within 35 miles of every person in Minnesota. In 1983 Minnesota passed legislation mandating “shared responsibility” for higher education costs. Under this policy, the state was responsible for two-thirds of the cost of higher education and students were responsible for the remaining one third. This legislation also established a focus on assisting low-income students through amendments to the Minnesota Grant Program. While the legislation laid out proportions of responsibility for education costs, over time the level of appropriations declined relative to tuition and the legislation was amended to reflect this decline in support, tying the level of appropriations to the amount of tuition revenue rather than total instructional costs.

Minnesota’s investment in higher education started to decline in the early 1990s, rebounded in Fiscal Year (FY) 1998 and dropped sharply beginning in FY 2002 and continued to decline over the next decade. As a consequence of lower levels of investment in higher education, an amplified sense that higher education was an integral part of social and economic mobility, and rising costs at higher education institutions, more students took on higher debt loads.

Minnesota spending on higher education, adjusted for inflation using the Higher Education Price Index (HEPI), reached about $2.09 billion in 1991 and was stable until about 1999 before beginning a significant decline. Investment in higher education in Minnesota hit a low of $1.36 billion in FY 2013 before rebounding in FY 2014 but is still lagging behind previous levels of investment.

**Minnesota State Appropriations and Tuition**
Per-Full Time Student in inflation adjusted dollars (2015)

![Graph showing Minnesota State Appropriations and Tuition](graph.png)

Source: State Higher Education Executive Officers Association

NORTH STAR POLICY INSTITUTE
Perhaps a more telling number than aggregate investment in higher education is the decline in per-capita (per-student) spending since it factors in changes in the total student population over time. Adjusted for inflation, the State of Minnesota spent $6,775 per equivalent full-time student in public higher education in 2016. This is $3,589 less than twenty years ago when adjusted for inflation.

As state aid declined, tuition increased dramatically. Tuition increases at the University of Minnesota did not happen at a constant rate, but the direction of costs has been consistently upward. Between 1999 and 2009 tuition at the University of Minnesota doubled. In 2009, tuition revenues exceeded state funding for the first time. Adjusted for inflation, the cost of in-state college tuition for undergraduates increased 343% between 1970 and 2017. Overall increases in tuition would have been far worse without in-state tuition freezes in 2013-14 and 2014-15 school years enabled by additional state appropriations in FY 2014 included in the Governor’s budget and specifically tied to eliminating tuition increases.
Tuition increases are not exclusive to 4-year colleges and universities. Technical education tuition increased at a slower rate than 4-year institutions but still enough to create rising debt burdens for students. The cost of tuition at 2-year public colleges rose 294% in real dollars over the past 25 years. Adjusted for inflation this is an increase of 129%.  

The price of higher education includes more than the cost of tuition. The cost of fees, books, room, and board also continue to climb. As both tuition and the overall cost of attendance rose, the federal student loan programs increased overall borrowing limits on federal student loans. An undergraduate student who is claimed as a dependent by parents can now borrow up to $31,000 per year in federal student loans. An independent student can borrow up to $57,500 per year.
As public investment in higher education fell and tuition increased, a narrative emerged in the popular media about student loan debt as “good debt” and still persists today. Economic factors also drove more people to remain in college for longer periods of time. With fewer jobs with good pay and benefits and long-term employment prospects -- and increased educational requirements for many job openings -- higher education’s perceived value in both finding a job and absorbing the pressures of an uncertain employment market increased. This phenomenon was made more acute during the Great Recession when students delayed entering the job market due to high unemployment rates, particularly for younger workers. The recession led to delays in retirements due to losses in retirement savings, limiting the job openings for early career workers.

While some students continued to take a traditional path through higher education, beginning in the 1990 increased credential requirements led more people to pursue higher education for second careers. To defray the cost of higher education more students entered higher education while remaining in the workforce. As of 2015, over 70% of students in higher education were active in the labor market while enrolled in some form of higher education. Approximately one-third of working learners were students over 30 who returned to higher education after being part of the full-time workforce. Somewhat counterintuitively low-income people who work over 30 hours a week while enrolled in higher education end up struggling with student debt because it takes them longer to complete their education and they are more likely to be enrolled in for-profit colleges with higher tuition rates.

The 1990s also saw rapid growth in the for-profit higher education model both nationally and in Minnesota. As more employers sought credentials for specialized occupations, for-profit institutions began to aggressively market programs targeted at non-traditional students. It was the for-profit industry who first recognized the market opportunity of remote learning and a decentralized educational experience. These programs varied in quality and had higher tuition than their public equivalent. Students at for-profit colleges and universities were more likely to borrow for their education and borrowed more than students at either public or non-profit schools. They also had lower retention rates and lower graduation rates, leading to a large number of student borrowers without credentials.
The Current State of Student Debt in the State of Minnesota

The scope of the student debt crisis in Minnesota is enormous. Minnesotans owe $27 billion in student loan debt. Minnesota college graduates have the fourth highest level of student loan debt in the nation.\textsuperscript{41} 68% of the Minnesota class of 2017 has debt. The average 2017 graduate in Minnesota had $31,734 in student loan debt.\textsuperscript{42}

Student loan debt has eclipsed both credit card debt and auto debt in Minnesota. While other types of debt including mortgages, cars, and credit cards declined in the wake of the great recession, student loan debt continued to rise and rise significantly. Over the past 15 years, student loan debt has quadrupled on a per capita basis when adjusted for inflation, while other types of debt have increased at comparatively modest levels.\textsuperscript{43}

\begin{center}
\textbf{Consumer Debt in Minnesota by Type}

Per capita adjusted for inflation

\begin{tikzpicture}
\begin{axis}[
    title={Consumer Debt in Minnesota by Type},
    xlabel={Quarter},
    ylabel={\$},
    ytick={0,2000,4000,6000},
    yticklabels={0,\$2,000,\$4,000,\$6,000},
    ybar,
    bar width=6pt,
    enlargelimits=0.15,
    ymajorgrids=true,
    grid style=dashed,
    legend style={at={(0.5,-0.15)},anchor=north},
    nodes near coords,]

% Data for auto debt
\addplot coordinates {
(2003Q4,2000)
(2004Q4,2000)
(2005Q4,2000)
(2006Q4,2000)
(2007Q4,2000)
(2008Q4,2000)
(2009Q4,2000)
(2010Q4,2000)
(2011Q4,2000)
(2012Q4,2000)
(2013Q4,2000)
(2014Q4,2000)
(2015Q4,2000)
(2016Q4,2000)
(2017Q4,2000)
};

% Data for credit card debt
\addplot coordinates {
(2003Q4,3000)
(2004Q4,3000)
(2005Q4,3000)
(2006Q4,3000)
(2007Q4,3000)
(2008Q4,3000)
(2009Q4,3000)
(2010Q4,3000)
(2011Q4,3000)
(2012Q4,3000)
(2013Q4,3000)
(2014Q4,3000)
(2015Q4,3000)
(2016Q4,3000)
(2017Q4,3000)
};

% Data for student loan debt
\addplot coordinates {
(2003Q4,3500)
(2004Q4,3500)
(2005Q4,3500)
(2006Q4,3500)
(2007Q4,3500)
(2008Q4,3500)
(2009Q4,3500)
(2010Q4,3500)
(2011Q4,3500)
(2012Q4,3500)
(2013Q4,3500)
(2014Q4,3500)
(2015Q4,3500)
(2016Q4,3500)
(2017Q4,3500)
};

\legend{auto debt, credit card debt, student loan debt}
\end{axis}
\end{tikzpicture}
\end{center}

Source: Federal Reserve Bank of New York
The burden of student loan debt is not equally shared and has a larger impact on lower-income families. Examining national data, households making less than $30,000 have a relatively low share of the total educational debt but have a high level of debt relative to their income.\textsuperscript{44} This means that while their debt levels are lower they are less likely to be able to absorb the cost of student debt payments.

Of particular concern are the people who start but do not finish their higher education. According to the American Association of University Women, about 50% of student loan defaults are on loans that are less than $10,000.\textsuperscript{45} These borrowers are typically people who started but were not able to complete a certificate or diploma program. They have the debt of a higher education without the economic advantages of credentials. In 2014 the percent of enrolled students who completed their bachelor’s degree program was 48\% for MnSCU Universities and 72\% for the University of Minnesota.\textsuperscript{46} The percent of students who either completed their education or transferred to a bachelor’s degree program for MnSCU two year programs was 49\% in 2014.\textsuperscript{47} While these numbers are an improvement on past performance, there are still a large number of students who start but do not complete degrees at Minnesota’s public colleges and universities.

How people pay for their student loans has also changed over the last 30 years as debt levels rose. While the Standard Repayment Plan remains at 10 years, students with high levels of debt and modest incomes are increasingly opting for longer repayment plans, extending debt payments to 20, 25, or 30 years and increasing the total amount that students pay in interest. For many students, debt is not something that gets paid off. It is something that people are living with for decades.
Student Debt and the Minnesota Economy

Household formation and homeownership

One of the striking consequences of the high level of student loan debt is more young people are returning home after they graduate from college than previous generations and they are also living at home for longer periods of time. While the number of young people living at home is higher for non-college graduates than for college graduates, the number of college graduates living at home increased from 19% in 2005 to 28% by 2016. This manifests itself in slightly different ways for 2-year and 4-year program graduates. Students in Associate’s Degree programs are more likely to remain in their parents home over the course of their education while 4-year program students returned home after graduation or separation from higher education.

A lack of this new “household formation” is not in and of itself a problem except to the extent that it is less a choice and more a necessity. It can be a smart choice for students with high levels of student debt - students can save money and pay down debt. The tendency of students to return home after graduation or separation does, however, have some negative consequences. If returning home is a function of necessity, it hinders geographic mobility. Instead of people going where they have the best job opportunities or other types of opportunities, these decisions are delayed.

Student loan debt is one of the factors slowing the rate at which people are buying homes. While Minnesota continues to have high rates of homeownership and a robust market for home sales, younger households are delaying homeownership even while they want to become homeowners. According to the 2016 American Community Survey, the homeownership rate in Minnesota for people ages 24-34 is 51.2%. Recent national surveys of people born between 1982 and 1998 show that while most people still want to become homeowners, they do not feel like that are in a position to do so because of high debt loads. The same surveys show that millennials are putting off other major life decisions such as marrying and having children, not because they do not want to but because they are prioritizing homeownership.

There are many reasons why homeownership rates have declined for younger buyers in Minnesota including rising prices and a limited supply of starter homes. In addition to other factors, student loan debt has a direct impact on homeownership rates in Minnesota. According to a national analysis by the Federal Reserve, each $1,000 of student loan debt held by college graduates delays homeownership by 2.5 months for potential homebuyers in their mid-twenties. Using this calculation, the average Minnesota college graduate with student debt of $31,000, has an assumed homeownership delay of 6.5 years.
Suppressed levels of homeownership have a number of consequences both for individuals and the state of Minnesota. One of the major sources of household wealth in Minnesota is home ownership. Nationally, home equity makes up about two-thirds of household wealth for the typical family.\textsuperscript{57} Minnesota has one of the highest homeownership gaps in the country between white households and households of color.\textsuperscript{58} Addressing homeownership disparities is a priority of the current administration.\textsuperscript{59} Student loan debt can undermine strategies to eliminate the gap and build household wealth.\textsuperscript{60}

Delayed homeownership also creates pressures on rental housing in Minnesota. Minnesota has a very tight rental market with vacancy rates across the state well below 5\%.\textsuperscript{61} Higher demand for rental housing correlates strongly with increasing rents which creates challenges for households who are trying to save for a downpayment or make progress on their student loan debt.\textsuperscript{62} The student debt that drives more people to rental housing creates higher housing costs that prevent people from paying more on their student debt.\textsuperscript{63}
Wealth disparities, economic justice, and student loan debt

Minnesota has made it a priority to address wealth gaps, homeownership gaps, and educational disparities. Addressing disparities has wide-ranging benefits to the Minnesota economy. For example, the costs of racial disparities to the Minnesota economy were projected at about $18 billion out of Minnesota’s overall $326 billion Gross Domestic Product (GDP) in 2015. However, these efforts are undermined by the high incidence of student loan debt for people of color. Students of color borrow at higher rates than white students and have higher student loan debt burdens relative to educational attainment. For example, black students are twice as likely as white students to have student loan debt. Students of color are also more likely to be working learners than white students. Existing wealth and income disparities only serve to exacerbate the reliance on student loan debt by students of color.

While the gap in college enrollment has been narrowing over time, the gap in completion rates has been widening. This means that more students of color are taking on the burden of student debt without achieving the resultant degree that would translate into higher incomes.

Obtaining a college degree correlates with higher incomes and lower unemployment rates across all demographic groups. Concerns about student loan debt stymie efforts to create pathways to higher education among students of color. Long-term national studies of student loan defaults show that black men with college degrees have high default rates compared to white college graduates, due in large part to wage and employment disparities. While eliminating or reducing the burden of student loan debt will not by itself resolve wealth disparities, it will give more students of color the choice to pursue higher education, increase the likelihood that students will complete higher education, and reduce the likelihood of default.

Higher Education Participation Rate by Race and Ethnicity

Source: MN Dept. of Higher Ed.
Student loan debt and entrepreneurship

While other types of debt positively correlate with small business growth, student loan debt has a negative effect on small business development. Research by the Federal Reserve Bank of Philadelphia examined this issue and determined that student loan debt reduced the amount of small business development in correlation to the amount of debt. Based on these calculations, student loan debt reduced the number of new small businesses launched in Minnesota by more than 10% in the last 10 years.\(^2\)

This represents a significant cost to the state of Minnesota. Small businesses account for over 32% of jobs in Minnesota.\(^3\) Small businesses are also an important part of the economic and social well-being of rural communities across the state because they add to the diversity of local economies.\(^4\) Additionally, small businesses can innovate and grow into larger businesses that keep wealth in local communities. Small businesses were responsible for about 10% of Minnesota patent applications in 2015, helping Minnesota rank fourth among states nationally for patent activity per capita.\(^5\) Concerns about a slowdown in startup activity and small business development are raising concerns on both the state and federal level.\(^6\)

Entrepreneurship in the form of small business development contributes to economic equity in Minnesota. Entrepreneurship among people of color creates job opportunities and grows households wealth in communities of color.\(^7\) Given the disproportionately high debt burden among students of color, the drag that debt plays on the robustness of entrepreneurship in communities of color could be particularly acute.

Student loan debt and retirement

Another way that student loan debt creates challenges for the future of Minnesota is the effect on retirement and retirement savings. National analysis shows that while student loan debt does not prevent college graduates from establishing savings, it does reduce the amount that people save.\(^8\) Overall, college graduates were more likely to save for retirement than non-college graduates, but graduates with debt saved less than half of what graduates without debt were able to save.\(^9\) By age 30, people with student debt but without a degree had a retirement savings participation rate of between 42% and 46% while those who graduated had a savings rate of about 61% regardless of the size of their student loan debt. The amount of savings for graduates with debt was approximately $9,000 compared to over $18,000 for those without debt. Using compound interest at a conservative rate of return of 6% per year, this represents a difference of about $100,000 in retirement savings by age 65. In Minnesota, this would translate to about $11 billion in lost retirement savings for the last five years of college graduates.\(^10\)

Student loan debt is not just a young person’s problem. Nationally, approximately a 25% of Americans aged 45-55 have student loan debt. About 12% of the population aged 56-64 have student loan debt, while about 6% of people over 65 have student loans.\(^8\) According to the Government Accountability Office, in 2013 the federal government garnished social security payments from 155,000 people nationwide including 36,000 people 65 and older to pay delinquent student loans.\(^11\) In 2015 about 40% of borrowers over 65 were in default on their student loan debt.\(^12\) While young people have the highest percentage of people with student loan debt, seniors have the fastest growing percentage
of people with student loan debt, quadrupling between 2007 and 2017.\textsuperscript{84}

Minnesotans are not saving enough for retirement.\textsuperscript{85} Student loan debt hinders the ability of people to save for retirement and is having an increasingly large impact on people who are retired and on fixed incomes. Without addressing student debt these problems are going to get worse over time.

**Student loan debt and the next recession**

What will student loan debt mean in a different kind of economy? While the last recession was triggered in part by high and unsustainable levels of real estate debt, the lines of debt have shifted.\textsuperscript{86} Levels of personal debt have returned to pre-recession levels, but an increasing share of total debt load is student loan debt.\textsuperscript{87} Student loan debt cannot be discharged in bankruptcy except in exceptional circumstances. It is not an asset that can be sold or walked away from if someone is underwater.

Students can defer federal loans during periods of unemployment or economic hardship, but this does not solve the problem; it only delays future payments, extends the amount of time that people remain in debt, and unsubsidized loans continue to accrue interest. There are also limits on the amount of time that a student can place a loan into deferment.\textsuperscript{88} A student can apply for forbearance of loans in cases of economic hardship, but during forbearance the loans continue to accrue interest.\textsuperscript{89} Federal borrowers can also utilize income based and income contingent payment plans to significantly reduce student loan payments. People with private loans have much more limited options - forbearance or payment modifications are entirely at the discretion of the lender.

Nationally economists are beginning to raise concerns about the role that student loan debt will have in the next recession. According to the Brookings Institute, nearly 40\% of student loan borrowers are expected to default on their loans by 2023.\textsuperscript{90} Defaults on student loans will damage personal credit ratings, making it harder for people to buy houses, rent apartments, start businesses, get auto insurance, and obtain certain types of employment.
Policy Recommendations

Student Loan Debt Forgiveness

Discussions at the federal level about debt forgiveness are gaining traction, with significant potential impacts for Minnesota students and the state’s economy. While debt forgiveness is not cheap, it would put money directly into the hands of people who need it and increase economic activity.\(^{91}\) The currently proposed second round of federal tax cuts is expected to cost about $3.8 trillion.\(^{92}\) Forgiving the entire national student debt load of $1.6 trillion would be a relative bargain and add between $86 billion and $108 billion to the nation’s GDP.\(^{93}\)

Another strategy is to expand eligibility for current programs. Minnesota has a number of state loan forgiveness programs, but they are small and targeted to either specific occupations, specific geographic areas, or both.\(^{94}\) The policy goal of these programs is to entice people to pursue an education in fields where there are shortages, with a requirement that graduates work in underserved areas for a period of time.\(^{95}\)

The federal Public Service Loan Forgiveness program is much broader and includes forgiveness for people who work for nonprofit organizations or government entities.\(^{96}\) While encouraging people to enter public service is a noble goal, there are many students who could benefit from loan forgiveness who do not meet the federal definition of public service.

Even for students who have public loans and are interested in forgiveness programs, the path is steep. For example, as of this summer, the public interest loan forgiveness program approved about 1% of nearly thirty-thousand completed and processed applications.\(^{97}\) Arcane rules, conflicting information, and low awareness of the program are hampering the ability of graduates with debt to eliminate students loan debt. If the proportion of overall degree holders in Minnesota is roughly proportional to the number of students in the PSLF program, about 37,000 Minnesotans started progress toward using the PSLF program in its first seven years of accepting certifications.\(^{98}\)

Instead of fixing and increasing access to student loan debt forgiveness programs, the current federal administration has thrown its support behind the Promoting Real Opportunity, Success, and Prosperity through Education Reform or PROSPER act.\(^{99}\) The PROSPER act would eliminate the Public Interest Loan Forgiveness Program for future borrowers, potentially affecting tens of thousands of Minnesota borrowers. For example, if the current rate of interest in the program continues, this would affect over 40,000 future Minnesota borrowers in the course of less than a decade.\(^{100}\)

While the PSLF program is largely a federal issue, Minnesota could take steps to make this program work better for Minnesota borrowers. Minnesota can raise awareness of the program and provide assistance to students who are eligible but struggling to navigate the program requirements.
Reduce the cost of higher education

To increase access to higher education in Minnesota, and enable people to emerge with credentials and without large student loan debt burdens, Minnesota should reduce or eliminate tuition costs. This will require Minnesota to reinvest in higher education. While the total appropriations for higher education have partially rebounded since 2013, the state is still lagging behind historic levels and behind other states.101 Minnesota needs to invest more in higher education across the spectrum of public higher education institutions.

While the Minnesota Legislature has considered a number of bills to make some community college credits free, these proposals are narrow in scope and have an age limit, excluding returning learners and nontraditional students.102 To maximize opportunities for economic mobility, free or reduced higher education programs should be designed to meet the needs of a broad range of Minnesota learners, whether they are just graduating high school or returning to higher education later in life, and with tailored approaches to ensure access for lower-income students and students of color.

Increase support for nontraditional student success

Minnesota needs to meet the needs of the people who started but did not complete higher education programs and thus bear the burden of student loan debt without the benefits that accompany a college degree. These student loan holders are most likely to have children, most likely to be first-generation students, and most likely to be people of color. While people who did not complete programs tend to have lower levels of student loan debt, they also have higher delinquency rates than those who were able to complete programs, in part because they have lower incomes and in part because the factors that may have led to leaving higher education in the first place, such as family responsibilities, health issues, or financial challenges.

One strategy is to strengthen support for students is to avoid separation from higher education. There was significant investment nationally in student retention initiatives at the end of the last decade, and while these efforts focused primarily on students in four-year colleges and universities there are some good examples of best practices focused on at-risk community and technical colleges. A number of strategies that showed success for student retention at a reasonable cost include mandatory first-year orientation, development of learning communities and cohorts, and focused academic advising.103 The Minnesota Office of Higher Education has a robust analysis of best practices in student retention including successful strategies from across the state.104 While many of the programs focus on the academic success of students, there is an opportunity to develop and grow programs that address challenges that students experience outside of the classroom. This could include programs such as on-campus childcare, financial counseling programs, and information about the range of programs and supports that can assist students in their success.

Another strategy would be to create programs that target and support students who dropped out of higher education prior to graduation. The recently announced Minnesota Reconnect pilot program is an example of the type of program that can help returning students succeed.105 This program provides a variety of services to students who re-enroll in college at four MnSCU campuses including emergency financial assistance, academic counseling, and help navigating other types of
government assistance. The program is only available at a few campuses, however, and does not provide direct financial assistance to returning learners. While it is a program that can make a big difference in the lives of Minnesota families, funding is a limiting factor. The current pilot was only made possible through a grant from the Lumina Foundation and financial assistance from the State Higher Education Officers Association.

There are a number of programs in other states that provide direct financial assistance to returning learners. Indiana and Tennessee both have programs that provide financial assistance to learners who return to complete a college degree after an absence. The amount of financial assistance is limited, but even small grants can make a big difference in the success of returning learners. Minnesota policymakers should look to these examples in crafting and funding programs.

**Aggressively regulate the for-profit college industry and monitor access to public loan resources**

Students at for-profit higher education institutions have higher student debt loads, higher default rates, and worse completion rates than students at nonprofit and public institutions. A recent analysis by the Brookings Institute reveals that the 12-year default rate for students who attended for-profit higher education institutions is 43% compared to 11% for students who never attended a for-profit higher education institution. The cost of enrollment at for-profit institutions is high and the quality of education is variable with some colleges issuing diplomas that provide no value to students.

Minnesota has taken some important steps to regulate for-profit colleges and to enforce fraud actions when merited. Minnesota increased the power of the Office of Higher Education to investigate fraud by for-profit colleges and impose penalties such as requiring reimbursements in instances of fraud. Additionally, Minnesota created a transparent database of the cost of programs and the earnings of graduates that includes public, nonprofit, and for-profit institutions.

The Minnesota Attorney General has also been aggressive in investigating and taking action against fraudulent for-profit institutions. The Minnesota Attorney General’s Office sued Globe University and the Minnesota College of Business for defrauding students and misrepresenting employment statistics and providing fraudulent loans to students. The Office of Higher Education used its power to revoke the Globe University and Minnesota College of Business registration status.

While not as significant as federal funding, for-profit institutions depend on funding from the state of Minnesota, primarily resources that go to students through the Minnesota Grant program. In 2016 the Minnesota Grant program assisted 6,364 students at for-profit institutions with almost $30 million in support. It is in the state’s interest and within the state’s power to ensure that these programs provide value to students through a high-quality education without requiring them to take on unsustainable levels of student loan debt.
Notes and Sources
1 State Level Household Debt Statistics 2003-2017, Federal Reserve Bank of New York, February, 2018
2 History of the University of Minnesota, University of Minnesota Rochester, https://r.umn.edu/node/511
3 Ibid.
4 Winona State University Overview, https://www.winona.edu/aboutwsu.asp
6 Ibid.
7 Oliver C. Carmichael, The Roots of Higher Education in Minnesota, Minnesota History, Autumn, 1954, http://collections.mnhs.org/MNHistoryMagazine/articles/34/v34i03p090-095.pdf. See also Association of Pubic Land Grant Universities, http://www aplu.org/about-us/history-of-aplu/what-is-a-land-grant-university/index.html, stating the purpose of the land grant universities as a way to provide both technical and classical liberal arts education to the working class.
11 See for example A Powerful Partnership, 3M and the University of Minnesota, http://3m.umn.edu
12 https://research.umn.edu/units/techcomm/startups/venture-center
18 Ibid. See the changes to eligibility for the Minnesota Grant program.
20 Minnesota State Senate, Fiscal Issues Brief, Higher Education Funding 1970-2015, http://www.senate.mn/departments/fiscalpol/reports/2017/IssueBrief-HigherEdFunding1970-2015.pdf. This report notes that using the Higher Education Price Index (HEPI) rather than the more typical CPI provides more accurate information because the CPI measures expenses that are not typical of higher education institutions. HEPI is only available for limited data sets and CPI is used where HEPI is not available. Declines using inflation adjusted 2015 dollars. Note that in 2002 there was also a decline in real dollar investment.
21 Ibid.
23 Ibid.
25 Ibid.
27 Ibid.
29 Ibid.
30 See for example Jeffrey Dorfman, Student loan debt hits record high and that’s good, Forbes, March 10, 2018, https://www.forbes.com/sites/jeffreydorfman/2018/05/10/student-loan-debt-hits-record-high-and-thats-good/#92b659a1bf9d
32 Ibid.
More recent graduates are living at home than ever before, MarketWatch, https://www.marketwatch.com/story/more-recent-graduates-are-living-at-home-and-for-longer-stretches/


36 Ibid.

37 Ibid.


42 Ibid.


45 Women's Student Debt Crisis in the United States, American Association of University Women, https://www.aauw.org/research/deeper-in-debt/


47 Ibid. See also What Younger Renters Want and the Financial Constraints They See,” Fannie Mae, May 2014.

48 Alessendra Malito, More recent graduates are living at home than ever before, MarketWatch, https://www.marketwatch.com/story/more-recent-graduates-are-living-at-home-and-for-longer-stretches/
Dwindling Startup Activity” , Testimony before The Com
ral-minnesota-2018/
73 F
Brent W. Ambrose, Larry Cordell, and Shuwei Ma, The
Impact of Student Loan Debt on Small Business For-
72 Ibid. See also Judith Scott-Clayton, “The looming stu-
71 Ibid. See also Judith Scott-Clayton, “The looming stu-
70 Black/white disparities in student loan debt more than
34 January 10, 2018, https://www.brookings.edu/wp-content/
uploads/2018/01/scott-clayton-report.pdf
72 Brent W. Ambrose, Larry Cordell, and Shuwei Ma, The
Impact of Student Loan Debt on Small Business For-
71 Ibid. Let's turn attention to small businesses in Minne-
org/blog/2017-11/lets-turn-attention-to-small-business-in-
minnesota
74 State of Rural Minnesota 2018, Center for Rural Pol-
73 Justin Stofferahn, Let’s turn attention to small businesses
org/blog/2017-11/lets-turn-attention-to-small-business-in-
minnesota
74 State of Rural Minnesota 2018, Center for Rural Policy
and Development, https://www.ruralmn.org/state-of-ru-
ral-minnesota-2018/
75 John Dukich, A review of the State of Science and
www.mhta.org/wp-content/uploads/delightful-down-
76 “America Without Entrepreneurs: The Consequences of
Dwindling Startup Activity”, Testimony before The Com-
mittee on Small Business and Entrepreneurship United
States Senate, June 29, 2016, John W. Lettieri, Cofounder &
Senior Director for Policy and Strategy Economic Innova-
tion Group. See also Justin Stofferahn, Let's turn attention to
small businesses in Minnesota, Growth and Justice, http://
growthandjustice.org/blog/2017-11/lets-turn-attention-to-
small-business-in-minnesota
77 Federal Reserve Bank of Minnesota, Helping minority
entrepreneurs succeed: A conversation with Gary Cun-
ningham of the Metropolitan Economic Development
community-dividend/helping-minority-entrepreneurs-suc-
cceed-a-conversation-with-gary-cunningham
78 Matthew S. Rutledge, Geoffrey T. Sanzenbacher, and
Francis M. Vitagliano, “Do Young Adults with Student Debt
Save Less for Retirement”, Center for retirement Research
79 Ibid.
80 Ibid. and NSPI analysis of data from the Minnesota Of-
state.mn.us/SPages/grad_debt.cfm
81 http://time.com/money/5256805/student-debt-boom-
ers-millennials/
82 United States Government Accountability Office, Inabil-
ity to Repay Student Loans May Affect Financial Security of
83 Consumer Finance Protection Bureau, Snapshot of older
borrowers and student loan debt, https://files.consumerfi-
ance.gov/f/documents/201701_cfpb_OA-Student-Loan-
Snapshot.pdf
84 Ibid.
85 State of Minnesota, State-Administered Private Sector
Employee Retirement Savings Study, Prepared by Deloitte
com/sites/default/files/attachments/MN%20State%20
Administered%20Private%20Sector%20Employee%20
Retirement%20Savings%20Final%20Report%202017_03_21.pdf
Reserve Bank of New York, February, 2018
87 Ibid.
88 U.S. Department of Education, Federal Student Aid,
https://studentaid.ed.gov/sa/repay-loans/deferment-for-
bearance
89 Ibid.
90 Judith Scott-Clayton, “The looming student loan de-
fault crisis is worse than we thought”, Economic Studies at
Brookings, Evidence Speaks Reports, Vol 2, #34 January
10, 2018, https://www.brookings.edu/wp-content/up-
loads/2018/01/scott-clayton-report.pdf
94 Minnesota’s Student Loan Forgiveness and Repayment Assistance Programs, Research Department Minnesota House of Representatives, https://www.house.leg.state.mn.us/hrd/pubs/stloanfrg.pdf
95 Ibid.
For examples of strategies for two-year and community colleges see Improving academic success for at-risk two-year college students, examining the SOAR program at Midlands Technical College. See also the variety of strategies at Minnesota State Campuses for the recruitment and retention of nontraditional students, http://www.minnstate.edu/system/cte/technicalassistance/nontraditional-practices.html
105 https://www.ohe.state.mn.us/MPg.cfm?page-ID=2313
106 Ibid.
114 https://www.ohe.state.mn.us/MPg.cfm?page-ID=2213
North Star Policy Institute is a progressive think tank that advances awareness and discussion about state-level public policies. We produce original research, articles, reports, and commentaries that center the priorities of Minnesota’s working people and families.