Lessons From Abroad on Student Debt

ECONOMIC VIEW
SUSAN DYNARSKI

In Sweden and Australia, longer terms and payments tied to income.

JOSEPH LANEY

Americans owe $1.3 trillion in student loans. More than seven million borrowers are in default, and millions more are behind on their payments.

Borrowing for college is common across the globe. Even in Sweden, where tuition is free, most students borrow. What's exceptional about the United States is that many borrowers are behind on their loans. So what do other countries do that makes their systems work better than ours?

Christina Forsberg, director of Sweden's student aid system, said 70 percent of Swedish students borrow for college. In the United States, a comparable 70 percent of holders of bachelor's degrees borrowed to fund their undergraduate studies. The typical student debt in Sweden is 172,000 kronor, or about $20,000. In the United States, undergraduate debt is less than $10,000 for those who don't complete a B.A., and about $30,000 for those who do.

Swedish students borrow to pay living expenses because college students are considered independent adults, with no expectation that their parents will support them financially. Yet there is no student debt crisis in Sweden, because payments are spread out over 25 years. They also start out low, rising slowly over time. In the United States, the typical repayment period is just 10 years. In Germany, students pay their loans over 20 years; in England, it's 30 years. An education pays off over a lifetime, so it makes sense that student loans should be paid off over a long term.

The generous Swedish welfare system and low income inequality help keep borrowers out of default. In Australia, income inequality is much higher than in Sweden. Yet while students borrow about as much as they do in the United States (30,000 Australian dollars, or about $22,000), the system works smoothly because borrowers pay nothing until their earnings reach about $40,000. Above that threshold, borrowers pay 4 percent of their income until the debt is paid off. Payments rise and fall automatically with earnings.

But in the standard American plan, borrowers face the same payments when they first get out of college as they will years later, when their earnings are higher.

Student loan payments in Australia are automatically withheld from pay. When earnings drop, loan payments drop immediately. In the United States, student loan bills keep coming, no matter how small the paycheck. It's up to borrowers to apply for a reprieve. Getting on an income-based repayment plan depends on working with a loan servicer to complete a 12-page application. As shown by the Consumer Financial Protection Bureau, this is often a bumpy process that can take months.

Payroll withholding is the only way to provide an immediate link between fluctuations in earnings and loan payments. Any other system delays the protections that low-income borrowers need.

Staying in an income-based repayment requires filling out an annual application. Many who successfully enter such a plan find themselves kicked out the next year, when they (or their loan servicers) don't complete the required paperwork on time.

While income-based repayment protects low-income borrowers, it also speeds repayment by high earners. The typical Australian graduate discharges student debt within eight to 12 years. Those with very high earnings finish in as few as five years. In a system of flat repayments, there's no incentive to discharge debt early.

What's special about the United States is not how much we borrow but that we have turned manageable debt into a financial disaster for millions.

Income Affects Insurance

YOUR MONEY
ANN CARRNS

TRAVIS DOVE FOR THE NEW YORK TIMES

HIGHER PREMIUMS **Blue-collar workers with good driving records pay an average of $681 a year more than white-collar workers, an analysis shows.**

Being on the lower end of the wage scale can mean paying much more for car insurance, even for good drivers. Factors like renting rather than owning a home, holding just a high school diploma and working an hourly wage job can mean substantially higher costs for car insurance, according to a new analysis by the Consumer Federation of America.

Insurers don't explicitly use income in setting rates, but companies consider social and economic factors like education and occupation that serve as surrogates for income, said J. Robert Hunter, the federation's director of insurance. As a result, a blue-collar worker with a clean driving record pays an average of 59 percent more, or $681 a year, than a white-collar worker with a similar record.

The study sought online quotes for basic liability insurance for four hypothetical drivers in 15 cities from the websites of five major insurers: Geico, Progressive, Allstate, Farmers and State Farm. The study sought quotes for both a male and a female driver who were married, held master's degrees and who worked white-collar jobs. Each owned a car and carried insurance during the previous six months. Then, keeping constant information like the applicant's driving record, address and ZIP code, the study sought quotes for drivers who were single, held high school diplomas and rented their homes. The researchers indicated that the hypothetical applicants had not owned a car for the previous six months, and so they had not carried car insurance.

The analysis found that the average premium for all drivers with indicators of high socioeconomic status was just over $1,144, while the average quote for the low-economic-status drivers was $1,825.

David Snyder of the Property Casualty Insurers Association of America, an industry group, said the federation's study distorted the way auto insurance works for consumers. All factors used in setting rates are "proven to increase the accuracy" of predicting the likelihood of a loss, he said, so that riskier drivers pay more. "Insurance companies rate on the basis of risk," he said.

The consumer federation is urging state legislators to adopt rules that would force insurers to emphasize driving-related factors, like tickets and accidents, when setting premiums.

Q & A

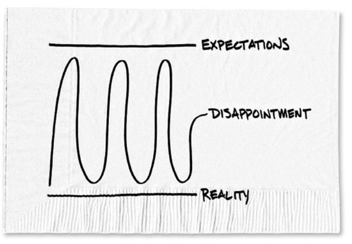
¶ How can I get the best rate on car insurance?
Mr. Hunter advises consumers to get quotes from different companies, since rates can vary. Make sure you are dealing with the insurer's "standard" insurance division and not its high-risk affiliate.

¶ Do insurers offer any discounts?
The Insurance Information Institute recommends asking about discounts available for having multiple policies with the same company (like auto and homeowner's), for driving limited distances or for taking a safe driving course. Some offer discounts to member of the military.

¶ Where can I find more information about rates?
The National Association of Insurance Commissioners offers a consumer guide on its website.

Advice Served Beneath a Slick Title

SKETCH GUY
CARL RICHARDS



CARL RICHARDS

Clever marketing in the traditional financial services industry confuses people. They see the title "financial adviser," "financial planner" or "financial" anything and expect to receive unbiased advice.

Some expectations of the financial professionals we hire can lead to disappointment, since these particular titles mean nothing. No universal standard of care exists that applies to the financial industry. Other than the financial professionals who are fiduciaries and must act in customers' best interests, there is no requirement to put a client's needs first.

To understand this point, imagine you go to a Toyota dealership fully expecting the salesperson to encourage you to buy a Toyota. You would be shocked if that salesperson said, "I think you'd be better off buying a Chevy."

But that's exactly what we've come to expect from everyone in the financial world. People assume that a certain title will guarantee them something akin to the Toyota salesperson's recommendation of a Chevrolet. Then we're shocked, just shocked, to discover a bias favoring the professional's financial interests and not our own. In fact, the marketing is so clever that the Financial Industry Regulatory Authority, the group that oversees the broker-dealer industry, includes a disclaimer on its website:

"Financial analyst, financial adviser, financial consultant, financial planner, investment consultant or wealth manager are generic terms or job titles, and may be used by investment professionals who may not hold any specific credential."

So don't let the slick marketing blind you to reality. Go into every financial relationship with your eyes wide open. Demand a frank conversation with any financial professional before handing over your money. If you don't know where to start, try the three simple questions that I wrote about last year: Do they learn about you before offering a prescription; do they disclose conflicts of interest; and how are they paid?

Those in the financial services industry should be embarrassed by the reality behind the clever marketing. And you have every right to be upset. Shame on all of us. But now that you know what to expect, do not be surprised if a title does not guarantee you unbiased advice. You know it can happen, so shame on you if you're shocked.

A Gender Gap In the Later Years

RETIRING
ELIZABETH OLSON

Women count on less from pensions and savings than men do.

Her mother, who taught in a one-room schoolhouse in Kentucky a century ago, had some words of wisdom for Adna Bert Baldwin: A woman should have money to pay her own way.

Ms. Baldwin, 81, took that advice seriously. She married young, but followed in her mother's footsteps, teaching elementary school students not far from Cincinnati for 27 years. The pension she earned when she retired two decades ago left her more secure than her mother, Adna Burns, who taught in an era when the idea of paid retirement was just emerging for teachers.

Ms. Baldwin's pension's not a huge amount, about $2,100 monthly, but more than if she had been forced to rely on her late husband's pension from his job as a railroad engineer. "It means I can stay in my house, which is paid for, and I am debt-free," she said.

Ms. Baldwin is among a relatively small group of older women who enjoy decent pensions. Many women of her generation did not qualify for retirement benefits because they took time away from the workplace, or worked part time, to raise children or tend to aging parents. As a result, the majority over 70 rely on Social Security, with an average monthly check of $1,300. But those who worked consistently for long periods in fields like health care, education and public administration — where defined-benefit pensions became more prevalent — are in a sweeter spot.

Few people in those groups became rich. But very few fell into poverty, either. And in retirement, workers in those disciplines are more secure than their peers who worked in other industries, according to the National Institute on Retirement Security. Only 4 percent of retired women over 65 who worked in education, for example, are poor. The poverty rate for retail workers is 9 percent.

Fields in which women are a significant portion of the work force are more likely to still offer a defined-benefit pension plan. Most public-school teachers, for example, have pensions. Nurses have lagged teachers because fewer hospitals and health care systems have offered traditional pensions, but they are still better protected than those working in most fields.

For most women reaching retirement age today, however, their situation is generally worse than that of their male counterparts.

"Women are 80 percent more likely than men to be impoverished at age 65 and older, while women between the ages of 75 and 79 are three times more likely than men to be living in poverty," said Diane Oakley, the retirement security institute's executive director.

Much of that can be traced to a persistent gender gap in retirement income. In 2014, men received $17,856 in median pension income, according to the institute; women got about $12,000. A similar disparity applies to 401(k) savings, where women accumulated, on average, about two-thirds of what their male counterparts saved.

A large part of the difference between women, who had $25,000 invested, on average, versus $36,875 for men, stemmed, of course, from continuing disparities in wages.

"The wage gap between men and women has narrowed," said Lori A. Trawinksi of the AARP Public Policy Institute. "But underneath that improvement lies a much more complicated picture of the role that employment has played in the lives of women over the past several decades."

KYLE GRILLOT FOR THE NEW YORK TIMES

ENOUGH TO LIVE ON **As a schoolteacher for 27 years, Adna Bert Baldwin, 81, earned a pension.**

Given the evaporation of traditional pensions and the stagnation of wages, the next generation of women to reach retirement age is likely to spend more time working. Increasing numbers of women over 55 are working full or part time, and the Bureau of Labor Statistics projects that by the end of this decade, about 20 percent of the women over 65 will be in the labor force.

"Some women want to work," Ms. Trawinski said, "but many must work to increase their security in retirement."