College Loans: Debt That Swallows Generations

Many parents over 60 are still paying for their children’s education, with no end in sight.

WHEN PATRICK DONOHUE retired in May after a 20-year career in customer service at AT&T, he and his wife, Kay, didn’t celebrate. Instead, they argued over which pension option was better: obtaining a large portion right away or scheduling small monthly payments.

At issue was whether the lump sum might free them from paying further interest on the $97,932 they borrowed from the federal government so their four daughters could attend college, or if doing so would mean sacrificing their long-term financial stability. Ultimately, they settled on the monthly payments, guaranteed for both their lifetimes.

“Kay’s position was, we would outlive the lump sum,” said Mr. Donohue, 64, of San Diego. His inclination to take it may have been just as practical, though: “After eight years of paying off loans, my concern was that we didn’t have much of a cushion if we encountered a major expense.”

It’s a situation more American retirees can relate to: While most borrowers are 18 to 39 years old, people over 60 are the fastest-growing segment of the population with student loan debt, according to a report by the Consumer Financial Protection Bureau.

In all, more than 2.8 million Americans over 60 are contending with student debt, a number that has quadrupled from 700,000 in 2005, according to the bureau. The cost is swelling, too: From 2012 to 2017, for those age 60 and older, the average amount of student loan debt almost doubled, ballooning to $23,500 from $12,100.

The Donohues’ situation is typical. According to that 2017 report, which uses the most recently available figures, 73 percent of borrowers over 60 are paying off student loans they either took out or co-signed to help children and grandchildren through college. Only 27 percent are chipping away at their own or their spouse’s education.

Those numbers don’t surprise Persis Yu, director of the National Consumer Law Center’s Student Loan Borrower Assistance Project. “We’re taught that sacrificing for our children is what we’re supposed to do,” she said. “What parent would say, ‘No, I’m not going to provide this opportunity for my child to go to college, even if it’s to my own financial detriment?’”

A 2019 AARP Public Policy Institute report found that 15 years ago, borrowers 50 and over held $47 billion of the nation’s $455.2 billion in student loan debt. By 2018, that figure had risen to $289.5 billion of an overall $1.5 trillion.

There are big risks to taking on this debt, and painful consequences if you fall behind: A person’s Social Security benefits can be reduced up to 15 percent if the borrower defaults, not to mention serious quality-of-life issues.

The kind of issues Kimberly Weihl, 55, of Midland, Mich., is facing, for instance. When Ms. Weihl took out a loan for her daughter to attend Saginaw Valley State University in 2007, she was already paying down $60,000 of her own student debt. Now she owes $77,000. Her daughter, who dropped out after two years at Saginaw State and is living at home, is working as a waitress and is not yet able to help with payments, which come to $500 a month.

Ms. Weihl cannot foresee a future in which she is able to retire from her nursing job. “I’m convinced I’m going to die before I resolve this,” she said. “I can’t sleep at night. My stomach is in knots.”

JULIE B. MILLER, a researcher at the M.I.T. AgeLab who is studying how college debt affects family relationships, said student loans and longevity planning were at odds within many debt-saddled households. Pre-retirement milestones like paying off a mortgage get shelved in favor of paying off loans, she said. In some cases, like Ms. Weihl’s, borrowers’ mental or physical health suffers.

“They’ll say, ‘It’s either, make my loan payment this month or do the root canal,’” Dr. Miller said. Sometimes consequences cross generations. “We’ve had borrowers say, ‘My loans are impacting my ability to help my mom, who’s in a nursing home, financially.’”

The Donohues’ debt load owes itself to four separate loans. Each daughter graduated from a California public university. The part that mystifies Mr. Donohue is how the cost of education so quickly managed to out-
pace his ability to pay.

"I graduated from a private college, the University of the Pacific, in 1978," he said. "There were state scholarships available at that time, and I had a little baseball scholarship, and I came out with $3,000 in debt." (This amounts to about $12,000 in inflation-adjusted dollars.) He was able to pay that off before he married in 1988. Since then, he said, "the cost of college has become a nightmare and a scandal."

His daughters do not disagree. Kelly Donohue, 31, the oldest daughter, recently paid off her portion of the family's loans. But she still worries about her parents' future.

"The parent loan situation has definitely made me think about how I'll support them when they're no longer able to work," she said. "This is something I factor into my own financial planning."

Like Ms. Weilh, the Donohues borrowed federal money, in the form of Parent Plus loans. Another option for parents and grandparents is co-signing private loans. Both carry their own risks.

Parent Plus loans "basically fill the gap between what a child might qualify for on their own, which is usually not very much, and the cost of attendance," said Jessica Ferastoaru of Take Charge America, a nonprofit provider of student loan counseling for the National Foundation for Credit Counseling. Often, a student will max out federal student loans before turning to private or Parent Plus loans. According to the Education Department, dependent students qualify for $5,500 to $7,500 in loans per year.

Parent Plus loans differ from private loans in a few important ways. First, there is no cap on loan amounts and, in Mr. Donohue's opinion, not much in the way of warnings to discourage parents from asking for unmanageable sums. "When you apply, their formula is not complete enough," he said. "What ends up happening is they give out money too easily, and you backslide."

Another way they differ from private loans is that the signing parent — grandparents are ineligible for Parent Plus loans unless they have adopted the grandchild — is on the hook exclusively for repayment. In addition, "there's no way to transfer these loans to the student, and the interest rates can be quite high," Ms. Ferastoaru said, adding that the current rate is about 7 percent.

The risks in co-signing a private loan include fewer repayment plan options; the possibility that the student will miss or skip payments, leaving the co-signer responsible; and an increase in the balance if the loan has an adjustable interest rate, said Lori Trawinski, the AARP Public Policy Institute's director of banking and finance. In 2017, AARP Research conducted a study of 3,300 people over the age of 40 who took out loans for someone else, most often children or grandchildren. Among those 50 and older who co-signed a private student loan, 25 percent had to make at least one payment because the student borrower did not.

Those on the older end of the study group were more likely to default than younger co-signers. Decreased income levels after retirement, higher medical expenses and tighter budgets are the likely culprits, Dr. Trawinski said. According to a 2016 Government Accountability Office report, nearly 40 percent of borrowers 65 and older were in default on federal student loans. Dr. Trawinski suspects that number is rising steadily, a result of upticks in Parent Plus borrowing. "Family incomes have not increased enough to keep pace with inflation, much less the dramatic increase in college costs over the past several decades," she said.

THAT PENSION OPTION Mr. Donohue chose provides about $1,000 a month, and his student-loan payments are about the same. To cover living expenses, Mr. Donohue recently went back to work in customer service at Sprouts, a local grocery store. Before he took that job, he and his wife were dipping into their 401(k). Ms. Donohue is not working while she cares for her 94-year-old father.

Dr. Trawinski said parents and grandparents should protect themselves before taking out loans by doing the math beforehand, factoring in what-ifs, like the death of a spouse. They can also protect themselves and urge children to attend less expensive schools. And they should know that if they ever need to declare personal bankruptcy, student loan debt cannot be discharged or wiped away.

"Often these are emotional decisions," she said. "Sometimes they end up requiring you to sacrifice your long-term financial security."

A willing sacrifice can put a borrower's long-term financial security at risk.
Patrick Donohue with two of his four daughters, Carly, left, and Kelly, at their old high school in San Diego. Mr. Donohue, 64, is still paying off the loans that allowed his children to attend public universities.
The University of Southern California campus in Los Angeles. For many American families, the cost of college “has become a nightmare and a scandal,” Mr. Donohue said.