Young people struggle to deal with kiss of debt

By Mindy Fetterman and Barbara Hansen, USA TODAY

Thirty years ago, the "generation gap" reflected the cultural gulf between World War II-era parents and their children. Parents then just didn't get sex, drugs and rock 'n' roll.

Today, the gap is about debt.

This generation of twentysomethings is straining under the weight of college loans and other debt, a crushing load that separates it from every previous generation.

Nearly two-thirds carry some debt, and those with debt have taken on more in the past five years, according to an analysis of the credit records of 3 million twentysomethings that Experian, the credit-reporting agency, did for USA TODAY. Their late payments are rising, and they're more likely to be late than other Americans are.

Nearly half of twentysomethings have stopped paying a debt, forcing lenders to "charge off" the debt and sell it to a collection agency, or had cars repossessed or sought bankruptcy protection.

High debt loads are causing anxiety, too. A poll of twentysomethings by USA TODAY and the National Endowment for Financial Education (NEFE) found 60% feel they're facing tougher financial pressures than young people did in previous generations. And 30% say they worry frequently about their debt.

"I have nightmares," says Heather Schopp, 29, of Long Beach, Calif., who accrued $165,000 in student-loan debt to become a chiropractor. "I dream I'm on a hot-air balloon, hanging on for dear life."

Although the percentage of people ages 22 to 29 with debt has declined, their total debt is up 10%, to an average $16,120 as of Aug. 1, compared with five years earlier, Experian's analysis found. Every type of debt — from credit cards to college to personal loans — has risen.

Student-loan balances rose 16% to an average of $14,379; revolving debt, including credit cards, surged 24% to $5,781; and total installment debt, including student and personal loans, rose 4% to $17,208. (Comparisons are adjusted for inflation.)

Among all twentysomethings, the fastest-growing group owes $20,000 or more in student-loan debt. Though it's a small group, its proportion has doubled in the past five years to 3%.

"This debt-for-diploma system is strangling our young people right when they're starting out in life," says Tamara Draut, author of *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead*. "It's creating a sense of futility that no matter what they do, they're not going to be able to get ahead. It's a sense of hopelessness."

Credit cards have been a seductive lure for many twentysomethings who got them while in college or right after.

"I didn't have a lot of savings, so I started on my credit cards," says Tolu Adeleye, 28, of Minneapolis, who ran up debt traveling during school. He has about $35,000 in credit card debt.

A change of plans

Debt has forced some young people to change their career plans. Of those surveyed, 22% say they've taken a job they otherwise wouldn't have because they needed more money to pay off student-loan debt. Twenty-nine percent say they've put off or chosen not to pursue more education because they have so much debt already. And 26% have put off buying a home for the same reason.

A smaller percentage say they've put off marrying (11%) or having children (14%).

The Boomerang Generation — young adults who return to live with their parents — is real, too. In the poll, of 910 twentysomethings, 19% said they've moved back with parents to cut costs. The 2000 Census found that more than 25% of 18- to 34-year-olds had moved back in with family at the time the Census was taken.

"I was getting buried" by student debt, says Todd Townsend, 25, of Lake Placid, N.Y. He has moved back home from New York City to live with his mother so he can save money and pay off some of his debt.

Experience Inc., which provides career services to link college grads with jobs, found that 58% of twentysomethings it surveyed in July had moved back home after college. Of those, 32% stayed for more than a year, according to its survey of 320.

"The reliance on family for this generation is very, very different from prior generations," says Jennifer Floren, CEO of Experience. "They're living under the shelter — financial and otherwise — of Mom and Dad for much longer. "

Many young people fear they won't be able to count on Social Security or on company pensions. Meantime, they're being urged to save early for their retirement.

Yet many can't, and most aren't. Fifty-five percent aren't saving in either an individual retirement account or a 401(k) account, and 40% don't have a savings account they contribute to regularly, according to the USA TODAY/NEFE poll.

Kimberly Halbach, 25, of De Pere, Wis., is trying to save a little each month, even though she has about $30,000 in student debt. "I understand what I need to do," she says. "It's just getting the money to do it."

Dana Dwyer, 24, of Miami has $13,000 in student-loan debt, about $15,000 in credit card debt and $16,000 in medical bills. She'd like to save, but she's struggling just to pay her bills.

"Save what?" she says.

'Quit whining'

Some in the generations before them seem to feel little sympathy. They recall their own college days, when they worked during the school year and summers to pay tuition. What some may not recognize is how much college costs have soared above the overall inflation rate since then.

"We hear boomers all the time say, 'Well, gosh. They should just do what I did — work their way through school,' " says Bob Shireman of the Project on Student Debt, a non-profit that studies the issue. "It doesn't work that way anymore."

Shireman points to higher tuition, lower levels of federally guaranteed student loans per student, stagnating entry-level wages and skyrocketing housing costs.

Even some boomers who are sympathetic can sound a little judgmental, like Jimmy Williamson of the American Institute of Certified Public Accountants. The institute has launched an ad campaign — Feed the Pig — to urge young people to save in today's version of a piggy bank.

"When I came out of college, I knew I had to live within my means," says Williamson, who had $7,000 in college debt that took 10 years to pay off. "I used a public washeteria. I even saved for a TV. It took me two years to get a TV."

Add Madison Avenue's version of smart-talking, flip-flop-clad young adults springing for $5 lattes and downloading on their iPods, and you've got an image gap, too.

" 'Quit whining' — I've heard that a lot," says Draut, who is director of the economic opportunity program at Demos, a public-policy research group. "Someone sees a 25-year-old buy a plasma-screen TV at Best Buy, and they think every 25-year-old is buying a plasma-screen TV at Best Buy."

There's a blame-the-victim attitude at work, too, says William Strauss, co-author of *Millennials Rising*, a 2000 book that identified the generation born from the early 1980s to the early 2000s.

"There's the common misconception that they have these debts because they're buying iPods or cable TV," Strauss says. "It's not that. It's student loans and housing."

What exactly is tougher about the financial challenges facing today's young adults? Shireman of the Project on Student Debt points to:

•**Skyrocketing tuition.** The average price of college has grown much faster than the rate of inflation. Average annual tuition at public four-year colleges and universities is $5,836 in 2006-07, up 268% from 1976-77, according to the U.S. Education Department and the National Center for Education Statistics. Private college tuition is up 248% to $22,218 a year.

•**Declining student grants.** Though total federal student aid has grown sharply, so has the proportion of people in college. In 2004, 67% of high school graduates enrolled in college; in 1972, only 49% did. As a result, student grants cover only 39% of the costs of a four-year college today, compared with nearly 80% in the mid-1970s, the College Board says.

•**Soaring student-loan debt.** Students have generally made up the gap between what colleges charge and what they can afford by borrowing. The percentage of students who borrowed for college jumped to 65% in 2000-01 from 34% in 1977, the National Center for Education Statistics says.

And they use credit cards to help pay for books and other items. Half of all graduates in 2004 used credit cards for school expenses, the American Council on Education found.

•**Flat wages.** Once students graduate, jobs don't pay what they used to.

Thirty years ago, a male college graduate could make the equivalent of $51,223 a year in 2004 inflation-adjusted dollars. In 2004, he earned *less*: $50,700, according to the NCES. Wages for women, though, have risen.

•**Rising home prices.** It takes a greater portion of the average income to buy a median-price home today. In 1970, it was 17%; in 2005, 22.4%. The median price of a home was $23,000 in 1970. Adjusted for inflation, that's $115,770 — barely more than half the median price of $219,000 in 2005.

"Twentysomethings now are crunched in ways older people were not," says Cathy Stocker, co-author of *The Quarterlifer's Companion*, a book for twentysomethings. "The cost of education has far outpaced income, and housing costs have skyrocketed. They're crunched from all directions."

A tad too protected?

Twentysomethings tend to think differently, depending on their age.

Older twentysomethings are part of so-called Generation X, which includes those born from the early '60s to the early '80s. They grew up at a time when layoffs and divorce were hitting families hard. As a result, most of them tend to be realistic about company loyalty (they're not counting on it) or Social Security (not counting on it) or even their family's ability to care for them (they don't even want to ask).

Independence and skepticism run high. "Even the tail end of the Gen Xers can't imagine living with their parents again," says Floren of Experience. "They'd rather pitch a tent."

Younger twentysomethings, those about 25 and younger, are part of the Millennials, also known as Generation Y. More dependent on their parents, they've grown up in what some see as overprotective households. Their parents even have a nickname, "helicopter parents," for the way they hover.

That's left a group of young twentysomethings who tend to be casually optimistic about their future — no matter what.

"They expect things to be given to them," Floren says. "Even Gen Xers are ticked off by their sense of entitlement. They think: 'What's wrong with you? Why don't you just dive in?' "

In financial matters, people in their 20s — both younger and older twentysomethings — say they're more interested today in saving than twentysomethings were just 10 years ago, says Monica Kirgan, vice president of the Principal Financial Group.

But that doesn't mean they're actually saving.

"They would rather spend than save, and they're spending like crazy," Kirgan says. "They view saving for retirement as something old people do."

That said, when asked in a survey by American Century mutual fund company — "What would you do with $5,000?" — 58% of Gen Xers and 35% of Millennials said "pay off bills."

"Perhaps they're not as frivolous as we all thought," says Donna Byers, senior vice president of American Century.

In Los Angeles, Gregory Cendana is canvassing the UCLA campus to get signatures on a petition to lower student fees at California universities. Those fees, he says, have risen nearly 80% in four years.

"We want to make sure that the folks we have in office will be accountable to students and will care about education," says Cendana, 20, a sociology major who's on the Campus Progress student advisory board. He says they've registered 2,400 students to vote, the largest in years.

Across the country, students have been testifying at U.S. Education Department hearings, wearing "I'm drowning in debt" T-shirts.

A social issue

The U.S. Student Association (USSA) wants the government to boost student Pell grants, cut interest rates on government-backed loans (now 6.8%), and offer more forgiving repayment options, including graduated payments so those who earn less early in their careers aren't unduly burdened. Right now, student-loan debt is like a fixed-rate mortgage: The payment is the same on the first month as on the last month.

And they want payment plans that consider the effect of children on a family's monthly student-loan payment.

Other student advocate groups also want higher tax credits for student debt and help for students who choose lower-paying careers such as social work, teaching or public service. They're upset that Congress this year cut $12.7 billion from student-loan programs, the largest cut in history.

The high level of student-loan debt is "on the brink of becoming an unacceptable social issue," says Strauss, and it's one, he says, older generations must address.

"It's the single greatest problem facing this generation."

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