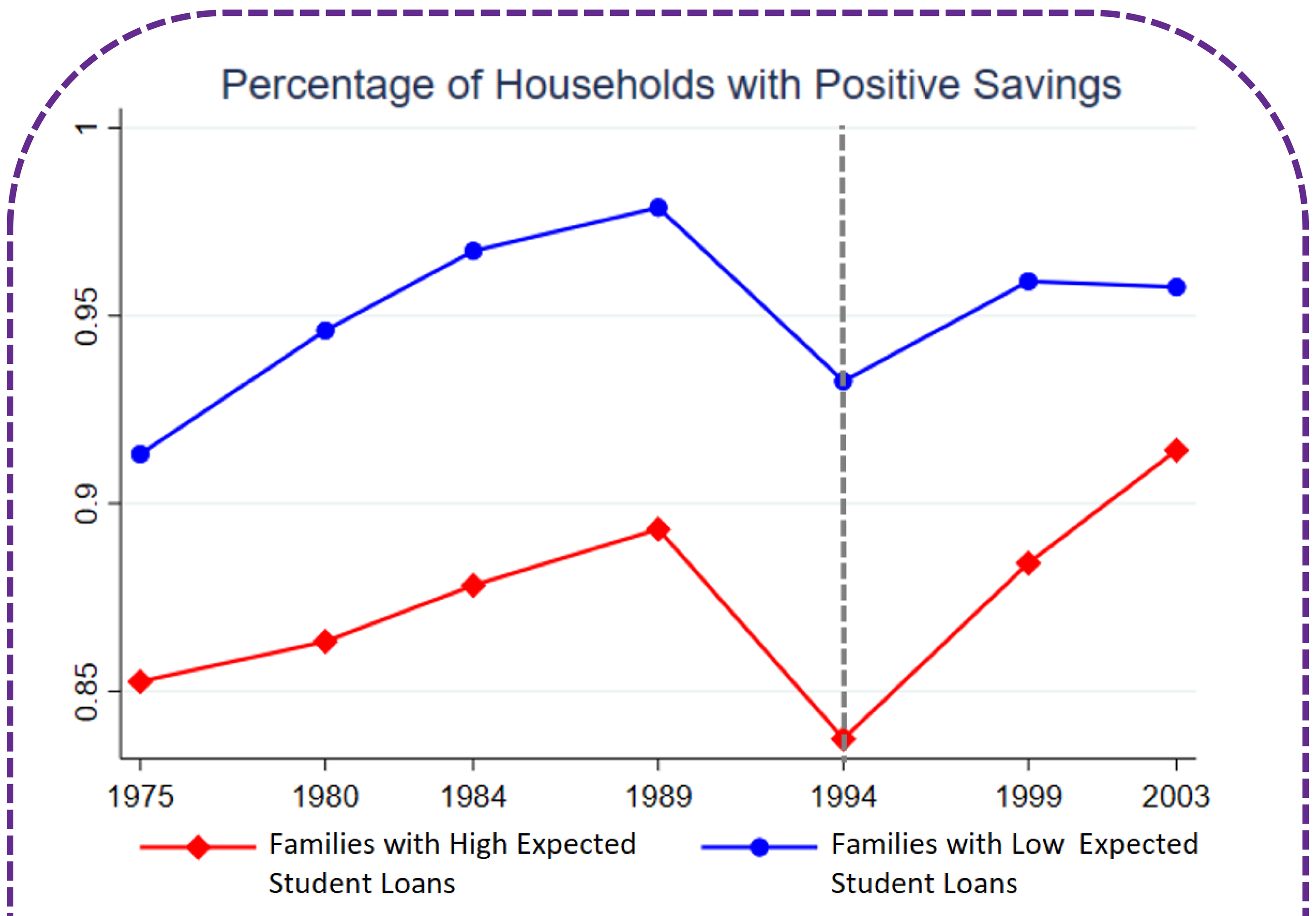
MANCHESTER 1824

The University of Manchester
Alliance Manchester Business School

Student Loan Supply, Parental Saving & Portfolio Allocation

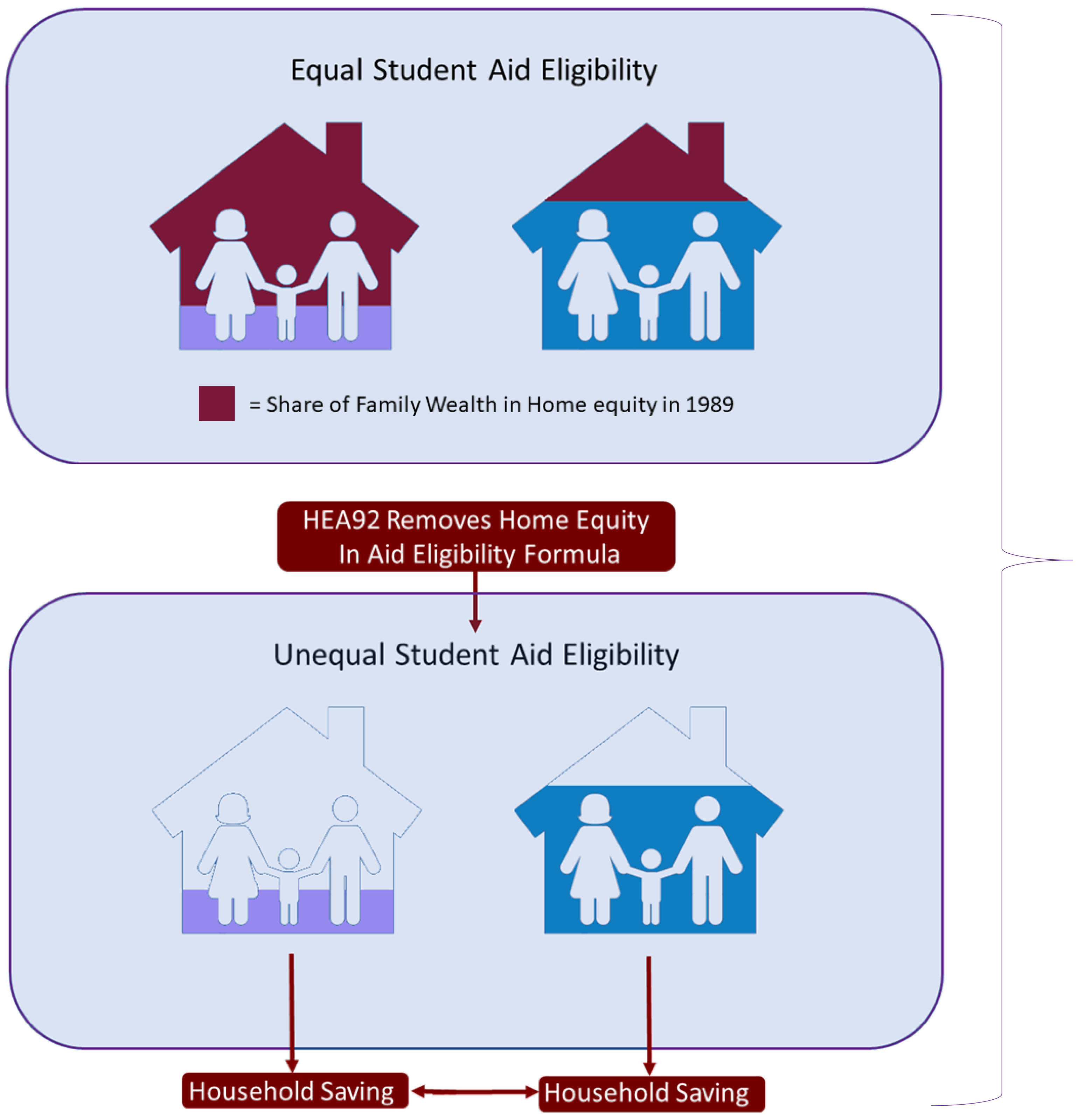
1. Motivation

- 45 million U.S. borrowers collectively owe **$1.6 trillion** in student loan debt in 2020
- Growing evidence shows the effect of student borrowing on the graduate's outcomes, little is known about families' intertemporal choices
- How does student loan provision affect parental saving for college?
  - i. Student loans and parental wealth are substitutes → Parental saving decreases
  - ii. Student loan acces improves the college prospecs of children (complements) → Parental saving increases



2. Main Results

- A one-standard deviation increase in expected student loan results in a **$1,400 increase** in annual parental saving
- Consistent with hypothesis ii. I find a disproportionate increase in college enrolment for children of families with increased access to student loans



3. Identification

- 1992 Higher Education Act removes home equity as tax on student borrowing limits

→ variation in expected student loans

- Compare change in saving behavior of families with high exposure to reform to relatively unaffected families

4. Additional Results and Placebo Tests

- No effects in placebo test using childless families
- Stronger saving response in areas with higher average college expenses
- Shift allocation of savings towards riskier assets

5. Conclusion & Implications

- Parents anticipate a higher enrolment probability by increasing their savings in response to student loan expansions
- Points to potentially large and overlooked intergenerational implications and reveals dynamics of the interaction between student loans and parental wealth accumulation

Emiel Jerphanion
emiel.jerphanion@manchester.ac.uk