

Young Adults' Debts and Psychological Distress

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Today, young adults' debt burden has hit a record high. Currently, each college student graduated with debt averaged \$27,000 (Federal Reserve Bank, 2016). The use of credit cards also has become a commonplace among adults in 20s. In 2013, each college student owed \$3,173 in credit card debt (Hogan et al., 2013). Although the negative consequences of debts on poorer psychological health have been addressed (Walsemann, Gee, & Gentile, 2015), quantified causal effects and potential different impacts by types of debt remain unclear in young adults.

Targeting adults aged 18 to 28, this study investigates two questions: First, do increases in student loans and credit card debts cause higher psychological distress, respectively—and if so, to what extent? Second, which type of debt, student loan or credit card debt, lead to higher psychological distress? Five biennial waves (from 2005 to 2013) from Panel Study of Income Dynamics—Transition into Adulthood (TA) were included. Results from fixed-effects models indicate that accruing an addition of \$1,000 in student loan and credit card debt attributes to 3% and 5% higher likelihood of exacerbated psychological distress. Credit card debt is more likely to attribute to severe distress levels than is student loan. To attenuate distress from student loans repayment, more explicit information disclosure may be incorporated in on-campus financial service prior to graduation. Second, given that credit card debt has more severe adverse influence on psychological health than do student loans, strategies that help to transfer, lesson, or cover expenditures that generate high credit card debt are imperative. Outsourcing expenditures generating high credit card debt to low-interest loans or grants that need not to be repaid is an option.

References

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