EPISODE 1414

[00:00:00]

FT: So Money is brought to you by CNET, the site that shows how to navigate change all around us. So Money episode 1414, will canceling student loans improve the wealth gap?

> *"***JL:*** If we're talking about closing the wealth gap, there is an opportunity for the Biden administration to do more, and canceling interest rates is another way to do that."*

[INTRO]

[00:00:49]

FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. As a follow up to the big news that President Biden is going to cancel at least $10,000 in student loan debt for millions of borrowers and 20,000 to Pell Grant recipients, we're talking about how this may or may not impact the wealth gap in America. This plan is expected to help mainly working and middle class borrowers. About 75% of the benefit will go to households making 88,000 or less per year. That's according to the Penn Wharton Budget Model analysis. But my guest today has some insights and advice on how this plan can go even further.

Jean Lee is the President and CEO of the Minority Corporate Counsel Association, which is the preeminent advisor on diversity, equity, and inclusion to C-suites across corporate America. Jean is an immigrant woman of color with a background in social work and corporate law. She's a fierce advocate for her individual and institutional clients, and she now champions systems level change to promote greater opportunities for those who, like her, are building careers in defiance of the status quo. Here's Jean Lee.

[INTERVIEW]

[00:01:58]

FT: Jean Lee, welcome to So Money.

[00:02:00]

JL: Thank you. Thank you so much for having me.

[00:02:03]

FT: I'm interested in your thoughts on the new Biden plan to eliminate some student loan debt. We've been covering this on the show in a few episodes, and I'm sure anyone listening is familiar with this update. But just to recap, President Joe Biden announced earlier – I guess it was now – When was it? End of August that he's going to cancel about $10,000 in student loan debt for millions of borrowers, as well as $20,000 to Pell Grant recipients.

We did a whole Q&A on what does this mean, how to get more information. But what I really wanted to focus on and dedicate a whole episode on was how this may or may not impact wealth gaps. So Jean, welcome to the show. You are President and CEO of the Minority Corporate Counsel Association. Before we get into your thoughts and your analysis, just tell us a little bit about your role as president and CEO.

[00:02:58]

JL: And again, thank you so much, Farnoosh, for having me on your show today. I am delighted to be here. So as the President and CEO of MCCA, the Minority Corporate Counsel Association, we lead a variety of efforts to improve diversity, equity, and inclusion in the workplace. We're focused on recruiting, retention, and promotion of diverse attorneys. Frankly, the burden of student loan debt is something that we're incredibly interested in because it hurts, particularly our constituents, black and minority students, and depletes our pipeline that many of our members and we all care about.

So I came into this role first as a volunteer board member and then decided to be full-time president and CEO about six and a half years ago. It is something that I'm incredibly passionate about. As a first generation Korean American woman and growing up in the States where there were a lot of changes in the last several decades, it is something that I have come to embrace, something that I'm passionate about, not only in my role currently as president and CEO but in my prior roles as social worker and, of course, as a volunteer for this organization. So delighted to be here and thank you again for having me.

[00:04:22]

FT: Yes. Well as the daughter of immigrants, Jean, how were you introduced to this concept of affording an education in America? My parents are immigrants from Iran. They didn't believe in student loans as just a like – That was the baseline, like we're not taking out debt. I'm very grateful for that. It made it a little bit more challenging, of course, to choose a college and go to college but such a great way to kind of get a leg up in my financial life. But curious just what was your experience at home.

[00:04:53]

JL: Similarly, my parents really believed in hard work and education. While they try their best, life was not financially very easy for us. My parents came at a time where Korea was going through a lot of industrialization. The war had just ended between North and South, and I did not have the great fortune of not being able to take out student loans. So this is not only personal for me, having struggled through tons of debt, to get an education because my parents believe that in order for us to succeed in their new home, new country, that we had to attain education.

So for me, I also was financially independent as of my freshman year in college. So thanks to the generosity of some of the universities like NYU and Rutgers where I've tended, who've given me not only student loans, access to student loans, but scholarships. I was able to support my education. But that did not come without a price. I mean, I worked multiple part-time jobs to minimize debt, and still I ended up with a pretty substantial debt. That I've only really recently started to make a huge dent, probably in the last – I would say really from the last decade or so.

So this is an important issue for many students, and I have the good fortune today of having worked in corporate America and then having had those opportunities to be able to pay those debts that I've incurred as a college and then, of course, a law student, and then did my master's in social work and psychology and so on. So a lot of personal knowledge, as well as certainly in my current role as CEO, it's something that I've been paying quite a bit of attention to, and how it impacts really our black and minority students disproportionately more so than Asian American students and white students.

[00:07:02]

FT: So then, Jean, what were your initial reactions to Biden's new plan to eliminate, as I said, 10,000 to 20,000 dollars' worth of debt, depending on the kind of debt you're carrying. Of course, there's income requirements for this too. You have to be making no more than $125,000 as a single tax payer, 250,000 as a household. Initial thoughts. Then now that we've had a bit of time to reflect on this and see maybe what the potential impacts are, any new thoughts on this.

[00:07:30]

JL: I think any relief, despite how small, I think is good. So I'll start from there. I'm really excited and happy to see that the Biden administration is giving some relief. But I really just think that it's just not enough. If we truly care about transformation and closing the wealth gap for black Americans, as President Biden had said during his run for the office of presidency just a year and a half ago, I think he needs to do more.

I think that one of the things that we may have reflected upon in the last several months, but certainly it's been studied and reflected upon for the last decade or so, it is no surprise that black students carry higher student loan than any other group that have taken out loans. In some cases, where there are private loans involved, black students of higher interest rates compared to, let's say, white students. On average, it's about half a percent to a percent more in interest rates for private loans, as well as the actual dollar amount that black students carry compared to other students.

So I think there needs to be more. I think the Biden administration can, for example, cancel interest rates for black students. I think that the administration could also not base this on income because I think that tends to hide the real problem of the wealth gap in this country between black and white Americans and other groups as well. So more could be done, in addition to the relief that the administration is providing. One of those things is to cancel interest rates for black and marginalized groups, as well as not basing it on income.

[00:09:32]

FT: The plan also, Jean, as we know, it vows to reduce monthly payment caps from 10% to 5% of a borrower's income. This is going to be part of the income-based repayment plan, which was first enacted during the Obama era. People like this. They say, actually, this is the better news here that long term, this actually has an opportunity to move the needle and help people get out of the financial student loan rut. Do you agree?

[00:10:00]

JL: Any efforts to relieve students from their student loan debt is a positive one. But again, what MCCA and we are urging the Biden administration to do is to expand the debt relief. Again, that is another great step. But cancel the interest rates. I mean, for those of us who have experienced around compounding interest rates when you're paying back a student loan, as well as anything else, compounded interest really adds up. I think there are now calculators and things available on the website that talks about how compounded interest could really add up for borrowers.

It’s no surprise that, once again, if you're taking out a larger loan amount, the compounded interest rate tends to have a larger financial impact. If we're talking about closing the wealth gap, there is an opportunity for the Biden administrations to do more, and canceling interest rates is another way to do that, especially for direct loans. Because essentially, the federal government is disproportionately really profiting from black students because they tend to take out larger loan amounts than any other group. I think, in some cases, double the amount of white students and 30% more than Asian American students.

So if you start doing the math, this really adds up, and there's an opportunity for the government to certainly make a bigger difference.

[00:11:26]

FT: Right. Or just make it free. Because the reason that black students are taking out all of this debt, it goes back to the wealth gap, the fact that they don't come from a place of means as much as other races. So maybe that's important to also give some context to. I would love you to provide insights into how it even comes to be that those who carry the most burden here are the minorities, are the black Americans.

[00:11:51]

JL: It really starts about generational wealth. Again, this is a complicated issue. I'm going to focus on the limited aspect of the student loans. But if you're looking at generational wealth, wealth gets passed on from one generation to the next. There is generational wealth that has been built for white Americans. That has not been the case for black Americans. Hence, the larger loan amount in order to get the education, to get the better paying jobs, is what's creating this sort of bigger gaps between generations.

So if you're a student, for example, whose parents – A black student in this country, just as a typical example, you take out a loan for $20,000 because your parents cannot afford to pay for education, well, then you get an interest rate that gets compounded. It makes it harder for you to pay that loan back. Perhaps because of the recession fears or some would argue that we're currently in a recession, given the two down quarters that we've had, it makes it harder for you to get a job that will help you pay off that loan. So you're not making maybe a bigger loan payment than you would like.

So it starts to compound generation after generation. If you have a bigger debt, you can't help the next generation because you're not accumulating wealth in the same way, for example, that white Americans are accumulating. Again, that's one aspect of how generational wealth is impacted because you're bogged down by debt, rather than being able to build wealth. It takes longer for you to build that wealth to be able to pass it on to the next generation.

So I think there are many factors, but that is one sort of simple way in which generational wealth is really impacted because you have this debt that you are acquiring in hopes of attaining a job that will allow you to pay off debt. But because your interest rates are higher, because it's compounded, it's just taking you longer to build up wealth, compared to someone who took out less loans or had parents who were able to offer support.

[00:13:57]

FT: Right. You mentioned that you aren't loving the fact that there's these income requirements, right? That they're actually not representative or fair, in a sense, to say, “Okay. Well, if you're making $126,000 a year, you're no longer qualified for this forgiveness because you’re making a lot of money.” But it's not really you can get the totality of somebody's financial reality. What else should be involved in the application process so that we can help more people and be really true to helping the people who need it the most?

[00:14:30]

JL: I mean, I think there are several things that people can look at in terms of the actual – The student loan debt. The amount, I think, is important. So one of the things that the government did that I thought was a good starting point is that they forgave those students who took out a Pell Grant because that suggests that the student had an economic need, more so than another student who wasn't eligible. Pell Grant is based on the lack of economic resources.

So I think one of the things that folks can look at is how much debt does one carry because if I carry, let's say, $50,000 and you carry $25,000, but we both make the $125,000 a year that the government had established, for example, I'm going to be paying my debt for a longer period of time than you. Then in addition to that, as I’m repaying, there's compounded interest.

So at the end of the day, when you do that math, and I think they're – I remember seeing an example for the impact of compounded interest. So for example, I think it was like for our college students, they take out on an average of about $10,000 in student loan. Well, if that takes you 3 years or 10 years to pay off, that interest rate starts to increase, even though you may have a lower interest rate.

So looking at just the income levels in determining what forgiveness should be provided to a student is really misleading because if I took out $50,000, yes, the $10,000 will be equitable for both of us because we're making $125,000, and we're getting $10,000 forgiven. However, if you're really thinking about the amount of loans I owe versus what you owe, it will have a disproportional impact on my sort of ability to acquire wealth that we just talked about.

So it may take me twice as long if not three times as long to pay off that debt. So even though I may make $125,000, I'm not going to be saving the 125,000. Therefore, I might not have the savings to own a home one day or to do something else, have more mobility in my career. Maybe I have to take a job that's focused on more of making the money and paying back the loan, rather than something I'm passionate about. So it can impact life in so many different ways that than just looking at income is very isolated and quite myopic, in my opinion.

[00:17:12]

FT: I think probably political that the administration doesn't want to get – They want to avoid that criticism that this is going to help the “wealthiest,” right? Because if they're saying, “Okay. Now, it doesn't matter how much you make. Or you could be a law student who's making half a million dollars a year now but has $300,000 in student loan debt. We just focus on the half a million dollar salary and go, ‘That's a rich person,’ and now we're helping rich people.” So I agree. I think it was sort of an arbitrary metric.

[00:17:45]

JL: Just to interject on that one point, I mean, one of the things that I learned talking to a lot of lawyers, who, as you noted, may seem very successful because they have a huge income, they have multi-generational families that they're supporting. So while a $500,000 for one single person may seem like they're financially doing extremely well, but what if that calculus is slightly different? What if you have three generations living in that home, and you're the sole breadwinner, or that everyone is relying on you?

I'm not saying that's the case in every case. But I know more often than not, for diverse communities, Asian Americans, black Americans, Latinx, Hispanic, and indigenous peoples, those diverse groups tend to have more than one generation within a home and are supporting not only their own family or themselves but other elderly parents, in addition to having their own children and supporting themselves.

So we're looking at a very different picture when you're just looking at the income levels of the students who may own or the workers who may own student loan debt.

[00:18:56]

FT: That's a great point and not one that we often think about. So thanks for bringing that up. You work very closely with companies, I understand, to help them realize and implement DEI initiatives to help because we know we're talking a lot about how the government can play a role in narrowing the wealth gap, using student loan debt as a platform to do that.

But companies that employ us who are incentivized to get us to stay at the company and continue earning and continue growing at the company can also play an important role in doing this. So let's shift the conversation a little bit to talking about corporate responsibility here. What are you talking about currently with companies on this landscape, and what are the things that you're seeing already implemented that seem to be successful?

[00:19:43]

JL: Yeah. This is a very unique moment, as you noted. Even like three, four years ago, corporations were talking about diversity, equity, and inclusion. But really, we're not focused as much on systemic change, and this is an opportunity for corporations to really focus on that systemic change and really think about barriers in which people can progress and the equity piece.

So I truly believe that employers can absolutely have a bigger role in helping workers eliminate student loan debt, school debt. Some companies are doing that already. Some of our members, Google, New York Life, Fidelity are a few of the companies. There are a few others that I'm probably forgetting that are offering student debt relief to their workers. It's a great start and opportunity to leverage diverse talent and also to retain that diverse talent within your workforce.

So I wholeheartedly encourage companies who are committed to DEI issues to really expand student loan relief to as many diverse communities and especially black students, where that that wealth gap could really start to close between races and certainly different communities, even amongst different communities of color. So it's an opportunity for companies to take a position in how they can create that systemic change that will be permanent, that will be transformative, rather than change that will come back and forth.

As you noted earlier, policies change back and forth, and what we're trying to really encourage companies to do is to think long term about that sustainability, if you're truly committed to DEI. This is an opportunity where you can really make that systemic change internally by offering student loan debt relief to more of your employees that you're recruiting, especially from diverse communities.

[00:21:55]

FT: I'm sure your email is abuzz with this headline recently, Twilio announcing an anti-racist approach to layoffs. Can you tell us like how does that work? What does that mean? Are you familiar with this? Do you think that this is going to become more common? One company is making a headline around this, but I wonder if this is going to become more normalized.

[00:22:17]

JL: Yeah. I'm not familiar with specifically about Twilio doing this. But if you look at kind of the last 15 years and especially at the last sort of Great Recession that we had in 2007 and ’08, when all those CTOs went bust, when you look at, for example, the workforce in our profession, the first group that were really impacted by the Great Recession were diverse attorneys. Whenever you talk about any sort of recession happening, and I see some of this happening, where, unfortunately, the first programs to go and the resources to be eliminated is around DEI.

That's because most companies, until recently, have really focused on DEI as a feel good, rather than a must have. Some companies that have been very forward-thinking have been very strategic. Thinking more broadly about sustainability and the impact on their organizations have taken a different approach. That's where the anti-racist approach becomes a really critical component because you're not looking at a DEI as, okay, this is a feel good program. We don't really have time for feel good because we need to make our earnings. We need to make our revenues, etc. You're looking at it much more broadly and from a long-term perspective.

It’s like anything else you do in business. Sometimes, you're going to have a little bit of a downside, but how do you mitigate against that? If you set up systemic structures that will prevent you from losing the gains you made in your efforts to increase diversity and create a culture that's much more equitable and inclusive, you're likely not going to see those issues have a negative impact within your workforce.

So at MCCA, one of the things that we have encouraged our companies to do to prevent such negative impacts, in addition to focusing on anti-racism, we have asked our companies to focus on data because the more you measure and the more you know, the more you can do better. When you are doing better and coming up with more strategic efforts to mitigate against these challenges, leaders are much more empathetic, and they're much more able to take a step back and look at issues holistically and hopefully transform their workforce for better and for the good, really, to mitigate against potential downside sides in the economy.

So that's the way we look at efforts to really decrease the impact of what could be a negative or racist layoff, as we had seen 15, 20 years ago, when the last economic Great Recession happened in 2007 and ’08.

[00:25:23]

FT: This is so fascinating, Jean. I've never talked about like recessions to how they can be racist, how recessions can be racist because when I was listening today on the radio with regards to Twilio is that, and this wasn't about Twilio but just sort of speaking around this idea of laying off through an anti-racist lens, I mean, thinking about companies as they do decide to lay off employees, it's usually like in a panic. That's when they're not really being thoughtful, and this unconscious bias that they may have had about who's going to stay and who should lead. They're going to probably prefer to have people stay that kind of are more like them. I'm using air quotes. That is where unconscious bias usually leads to unjust decisions, like laying off more people of color.

Just to go back to Twilio, though, for a second, while they haven't really expanded on what they mean by this carrying out layoffs through an antiracist lens, it is true too that those that they are letting go, they're going to get 12 weeks of pay, along with payment for one week for every year of service to the company. So that's a very big package, and they're going to be able to get the full value of the company's next stock vest. I mean, that's huge. It’s a great example, I think, others should follow as we’re probably be laying more people off in the next quarters and business cycles.

[00:26:40]

JL: Yeah. I think this will become a much more bigger issue because the Supreme Court, which is currently in recess, and they go back probably in about two weeks, the first week, the first Monday of October is when the Supreme Court goes back, they're going to hear a lot of affirmative action cases. The Harvard and UNC affirmative action cases are on the docket for the court to hear, I think, at the end of October, October 30, 31st and November 1st.

So DEI and the impact of what is happening in our country, in our court systems, in our companies will have a huge impact on certain populations. If history is a lesson for us to kind of remember, it could impact disproportionately those communities that are already struggling, as well as those who may be on the brink as well.

So DEI positions, as we know it, could be quickly eliminated. Companies can eliminate budgets, those resources and people who lead those efforts in the last few years. So again, MCC as an organization has always been advising corporations and law firms to really focus on systemic change so that you are in a good structurally position to continue all of the great work you've done in the last several years and continue forward, rather than regressing back because the economy is taking a downturn or there's a law that is changing.

So again, we're encouraging companies to be more focused on structural barriers and eliminating those, rather than focusing on quick fixes, which some companies, unfortunately, have done and, and we're going to see some of that hurt different communities.

[00:28:39]

FT: Yes. Well, Jean Lee, it's been a really, really important half hour with you, and I so appreciate all these insights and new ways of thinking that you've brought to the forefront, and you continue to bring to the stakeholders and leaders in our communities. Thank you for your work, and we look forward to having you back anytime.

[00:28:59]

JL: Thank you so much for having me, Farnoosh, and it was a pleasure speaking with you this morning as well.

[END OF INTERVIEW]

[00:29:07]

FT: Thanks so much to Jean for joining us. You can learn more about her by visiting mcca.com. I'll see you back here on Wednesday, and I hope your day is So Money.

[END]