Tuition, Debt, and the Wealth: The Hidden Insurance Role of Education Finance[1]

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This paper examines how tertiary-education financing systems—specifically tuition regimes and student-support structures—function as components of the social safety net and shape long-run wealth accumulation across household types. Using harmonized microdata from the Luxembourg Wealth Study (LWS) for 13 countries and newly constructed indicators of higher-education finance, we investigate how institutional differences in the cost and accessibility of tertiary education relate to both educational attainment and wealth outcomes. We conceptualize higher-education finance as an implicit form of social insurance: by altering the private cost and risk of human-capital investment, policy design may influence households' saving, borrowing, and asset-building trajectories.

We make three contributions. First, we provide new comparative evidence on how tuition levels and student-support systems are associated with wealth inequality across four household structures: single adults, single parents, childless couples, and couples with children. Second, we explore behavioral channels through which education costs may affect wealth accumulation, focusing on debt aversion, liquidity constraints at the transition to adulthood, and heterogeneous returns to education across household configurations. Third, we employ multilevel mixed-effects models with random slopes to separate within-country over-time variation from persistent cross-country institutional differences. This strategy does not identify causal effects but substantially limits confounding from unobserved country characteristics and allows us to quantify heterogeneity in the association between education-financing institutions and household wealth.

Our empirical results reveal substantial cross-country variation in both educational attainment and net wealth that aligns closely with differences in education-financing structures. Countries with well-developed student-support systems—particularly grant-based or income-contingent schemes—show higher tertiary-education attainment among single parents and smaller educational gaps between household types. In contrast, systems dominated by high tuition and market-rate loans display the widest disparities in attainment.

We also identify a robust, though not necessarily causal, relationship between financing regimes and wealth. Across multiple model specifications, free or low-tuition systems are associated with significantly lower net wealth, whereas generous student-support systems correlate with higher net wealth, although the latter relationship is often statistically imprecise. These patterns persist in robustness checks focusing on households with children only, single parents only, and pooled models with country fixed effects. We interpret the negative association between free tuition and net wealth as consistent with life-cycle behavior: lower expected education costs reduce the need for precautionary savings in early adulthood, while high-tuition environments increase perceived financial risk and induce greater saving—even among households not

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directly paying tuition at the time of the survey. These mechanisms are particularly salient for single parents, who face tighter liquidity constraints and have more limited buffers.

Interaction models further reveal that the wealth returns to tertiary education vary substantially across both household types and financing institutions. In high-tuition systems, tertiary-educated single parents accumulate markedly less wealth than comparable couples do, whereas Nordic-style systems with low tuition and substantial public support display much flatter gradients. These findings highlight the role of financial-policy design in shaping not only access to education but also the distribution of long-run wealth returns to education across household structures.

Viewed through the lens of social insurance, our results suggest that education-financing systems redistribute risk across generations and family types. When the state absorbs a larger share of the financial risks associated with human-capital investment, household wealth trajectories become less dependent on initial resources and family configuration. Complementary cohort analyses indicate that these patterns are more consistent with behavioral responses to policy design than with stable structural differences across welfare-state models.

Overall, this study provides new evidence on the long-term economic effects of educational safety nets and contributes to the broader understanding of how social insurance mechanisms embedded in education systems shape private wealth accumulation.