Voya Perspectives

The real costs of student loan debt—for employees and employers

Gain a competitive advantage by helping employees manage student loan debt

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Student loan debt is a hurdle to achieving retirement readiness

Student loan debt among Americans of all ages is a growing problem for employers. The impact this debt has on employees' paychecks can prevent them from saving in their retirement plans, putting the retirement readiness of millions of workers at risk.

Employer-sponsored retirement plans are the foundation for building retirement security but if employees aren't contributing enough—or worse, not participating at all—their retirement income gap will expand. A recent study from Boston College's Center for Retirement Research found that by age 30, college graduates without student debt accumulated almost twice the assets in their 401(k) as graduates with debt.[1]

> Workers with education debt risk ending up with $325,000 less by the time they reach retirement age.[2]

In addition to impacting retirement readiness, student debt is negatively impacting workplace productivity and the ability employers have to attract and retain talent. While the challenges are great, so are the opportunities. In this paper, we will explore the impact student loans have on retirement planning and financial wellness across all age cohorts, why employers are more concerned about helping to address these challenges and how employers can help employees both manage education expenses and save for retirement.

[1] Center for Retirement Research at Boston College, "How Does Student Debt Affect Early-Career Retirement Saving," May 2018.
[2] LIMRA, "LIMRA Secure Retirement Institute: $30,000 in student loan debt could mean $325,000 in lost retirement savings," November 2015.

Second-largest debt category

The student loan debt numbers are eye-opening. In the U.S., more than 44 million people collectively owe $1.5 trillion in student loans.[3] Approximately 65% of that debt belongs to Millennials and Centennials (those born between 1979–2009),[3] but it cuts across all generations—including Baby Boomers. And the debt levels are rising. The Congressional Budget Office estimates that $1.27 trillion in new federal student loans will come on the books between now and 2028.[3] This estimate does not include student loans from private sources, which currently account for 7.76% of total outstanding U.S. student loans[4] ($124.65 billion). Together, these figures are startling.

Despite the financial implications, post-secondary education is viewed by many as a career investment. Data from the U.S. Bureau of Labor indicates that college graduates who have at least a bachelor's degree earn nearly 65% more than people without a degree.[5] But, it's not just college graduates who are struggling with loans. There are millions of people (3.9 million between 2015 and 2016) who took out loans for college and dropped out before getting a degree. The average debt for those who drop out – across all types of institutions–is $7,174.[6]

Starting salaries can't keep up with the average student loan debt of graduating college seniors.[7]

It all adds up to a stunning statistic: student loans are now the second-largest debt category in the U.S., trailing only home mortgages.[8] Employees are asking for help and employers that can provide assistance will have a competitive advantage in the market.

"I need help paying off my student loans. I don't have any other kind of debt—no credit card debt, no car payments, no mortgage. Just student loans. And I feel like my payments aren't making a dent. It's keeping me from investing more in my retirement plan."

Student loan debt can span an individual's career[8]

$31,172
Average student loan balance

→

$393
Average student loan monthly payment

→

10–30 years
Time to pay off student debt

[3] SHRM, "Employers Explore Repaying Student Loan Debt," July 2018.
[4] Nerd Wallet, "2019 Student Loan Debt Statistics," 2019.
[5] U.S. Bureau of Labor Statistics, "Measuring the value of education," April 2018.
[6] U.S. News and World Report, "3.9 Million College Students Dropped Out with Debt," November 2017.
[7] Imagination, "Content for Thought Leaders," Issue 17, 2019.
[8] Credit.com, "U.S. Average Student Loan Debt Statistics," June 2019.

How student loan debt impacts the workplace

Employees have conflicting emotions when it comes to student loan debt. Research conducted by Voya's Consumer Insights & Research team shows that individuals realize an education empowers them to accomplish professional goals, yet they are frustrated by how these loans are impacting their current lifestyle and overall financial wellness. They want to pay down student loan debt so they can save more for retirement and other long-term goals. They're looking to employers for solutions.[9]

A recent survey found that, despite a solid economy and a jobless rate at a 49-year low, more employees than ever—59%—admit to being stressed about finances. Nearly half report that personal finances distracted them an average of three or more hours a week while working.[10] Based on a 40-hour work week, that's 7.5%—or nearly one month, annually—of potential lost productivity.

But, productivity is not the only factor employers should consider. Employees who have access to student loan support at work, have demonstrated higher retention.[7] In a competitive labor market, a student loan debt solution could be a noteworthy differentiator.

> According to the *Harvard Business Review*, "human capital has become the fundamental source of competitive advantage, and companies that manage it as carefully and rigorously as financial capital perform far better than the rest."[11]

Student debt affects every age group

It's tempting to view student loan debt as strictly a young person's issue. But it touches all generations across the workforce. It's often helpful for employers to break out their workforce by age cohorts, using accepted generational labels. But, it's important to note that each generation encompasses a wide age range. The youngest in a particular generation may have very different needs and concerns than those near the edge of the next generation. The important point for employers to understand is that employees looking for help with student debt can range in age from early twenties to those at or beyond traditional retirement age.

> *About one in five employees has student loan debt, and 98% of them say they'd likely save more for retirement if they had their loans under control.*[12]

[9] Voya Consumer Insights and Research Team, "Helping Consumers Manage Student Loan Debt," September 2019.
[10] PwC US, PwC's 8th Annual Employee Financial Wellness Survey, 2019.
[11] Harvard Business Review, "Strategy in the Age of Superabundant Capital," March-April 2017.
[12] Voya internal data, September 2019.

Starting out: Gen Z (Centennials) — up to age 24

- 7 of 10 have an average of $37,172 in student loan debt[3]
- More likely to be struggling financially[10]
- Has the greatest compounding potential for long-term savings—if they start saving early

Getting established: Gen Y (Millennials) — age 25–39

- Will make up about 40% of the U.S. labor force by 2025[13]
- 80% report their student loans are making it difficult to meet other financial goals[13]
- 36% of today's millennials say that student debt has kept them from home ownership[7]
- More than one-third would like student loan repayment options added to their benefits program[13]

Experiencing prime earnings: Gen X — age 40–54

- Collectively owe $548.4 billion in student loan debt with 4% owing $30,000 or more[8]
- 33% say paying down debt is their number one savings priority[14]
- Nearly 33% want employers to offer financial wellness benefits with access to unbiased counselors[3]

14% of the Class of 2018 parents took out an average of $35,600 in federal Parent PLUS loans.[7]

Nearing retirement: Baby Boomers — age 55–74

- 10% have student loans but half of those say the loans are having a significant impact on their financial goals[13]
- 31% stopped saving for retirement to focus on paying off student loans[15]
- May be more likely to delay retirement out of financial necessity, resulting in higher labor costs for employers[16]

A majority of employees today expect to continue working beyond traditional retirement age. One recent study predicts that ***students who graduated college in 2015 may have to delay retirement to age 75 due to the burden of student debt.***[17]

[13] LinkedIn, "No, Millennials will not be 75% of the workforce in 2025," September 2019.
[14] AARP, "Retirement Savings: Priorities, Strategies, and Barriers," January 2019.
[15] AARP Press Room, "Rising Student Loan Debt Prevents Saving, Buying a Home," September 2018.
[16] Population Reference Bureau, "Will More Baby Boomers Delay Retirement?" April 2018.
[17] NerdWallet, New Grad Retirement Report, 2015.

How employers can address the problem

Enhancing employee benefits packages

Employers are facing unique challenges as they design benefits programs that address the demands of a multi-generational employee population. Employees in different life stages will value benefit offerings that address their specific needs.

The advantages of offering specialized benefits programs as a way to attract and retain skilled workers are well known. For example, tuition benefits are often used to attract expert talent in specific areas such as healthcare, technology and finance. Programs that help employees manage financial stress and student debt burdens can serve a similar purpose across a much larger portion of the talent pool.

Factoring in future earning power

Voya's Consumer Insights & Research Team has found that many Pre-College Planners don't fully understand the financial impacts college costs can have over time.

Helping employees better manage their student loan debt hits the "trifecta" of opportunities for employers by allowing them to attract, develop and retain talent—especially in today's tight labor market. As employers contemplate adding student debt education and assistance to their benefits programs, they should understand the needs of two employee cohorts:

- **Pre-college planners:** Those in the planning stages of how to pay for college, either for themselves or their children.
- **Post-college payers:** Those already carrying student loan debt who need guidance and assistance paying off their loans without sabotaging other savings goals.

Helping pre-college planners prepare

There are several creative ways an employer can provide assistance to employees in the pre-college planning phase. Helping employees plan accordingly can have a dramatic impact on their future debt loads.

- **Offer a 529 plan:** In addition to paying education expenses directly, 529 account holders can use their funds to pay down student loans, as allowed for under the recently enacted Setting Every Community Up for Retirement (SECURE) Act.

Did you know?

529 plans can help mitigate student loan debt!

- **Consider other forms of financial support:** Many organizations offer scholarships, grants, tuition reimbursement programs and work study programs to help defray college expenses and reduce the need for loans.
- **Educate employees on their options:** Importantly, the benefits and features of federal versus private loans.

Growing loan balances

Many people don't realize that principal balances on both federal and private loans can actually grow over time if borrowers take advantage of income-driven payment plans or make interest-only payments. This can extend loan repayment terms out several decades and add to the stress felt by borrowers.

Helping post-college payers manage and repay their loans

Post-college payers need help on how to make room in their budgets for loan repayments alongside retirement plan contributions and other savings goals. Reducing loan payment amounts can free up money that can be redirected into a retirement plan. This is important for two reasons: it gets employees on a path to retirement readiness and it allows them to take advantage of company matching contributions.

- **Leveraging the retirement plan to alleviate pressure:** For those on a federal income-based repayment program, retirement plan contributions may reduce monthly student loan payments. It's important to note that reducing monthly loan payments typically extends the repayment period and the total amount of interest paid. Whether this makes sense over the long term is a decision each individual needs to make. Employers who include financial advice as a retirement plan benefit can help employees understand these technical decisions.
- **Refinancing and consolidating loans for more favorable terms:** Federal loans have favorable payment provisions, lower interest rates and other features which generally make refinancing and consolidation less attractive. But employees who have private loans with high interest rates may be able to refinance and/or consolidate their loans to make payments more manageable.

  Borrowers with multiple loans, each with different rates and terms may find it gets complicated to determine whether refinancing makes sense. It's an area where conflict-free, professional guidance can help.
- **Public Service Loan Forgiveness (PSLF):** The PSLF is a program that forgives the remaining balance on a federal Direct Loan for those working full-time at a government or nonprofit organization. The program is complicated and participants must meet strict qualifying criteria. Eligible employers can provide employees with education and support to help them take advantage of this opportunity.

Offering Student Loan Repayment Programs (SLRPs) can boost retirement saving

A growing number of companies are recognizing that implementing solutions to help employees pay off student debt can be good for business—particularly for attracting and retaining talent. A 2017 survey by American Student Assistance (ASA) found that 86% of employees would commit to a company for five years if the employer offered student loan repayment help.[18]

There are two primary ways employers can structure SLRPs:

1 Direct Payments (out-of-plan)

In this model, employers make direct after-tax contributions to the servicers of their employees' student loan debt. The employer is, in effect, making loan payments on behalf of the employee. Some companies match all or a percentage of employee repayments to the lender while others offer a flat dollar amount. The money is considered income for the employee so both the employer and employee must pay taxes.

This solution helps employees pay down their debt more quickly—and, in turn, increase their retirement savings to ensure they are on the road to retirement readiness. The benefits of direct payments are clear and visible to employees—and they value the assistance from employers.

2 Retirement Offsetting Payments (in-plan)

A second SLRP approach with favorable tax advantages for both the employer and employee is a variation on the 401(k) match implemented by Abbott Labs under an IRS private letter ruling.

Typically, an employee receives a 401(k) match when they contribute their own money to the plan. Abbott Labs was granted approval to characterize a worker's student loan repayments as an eligible 401(k) contribution for the purposes of earning the company match.

While the IRS private letter ruling currently applies to just one company, a more expansive IRS ruling or legislation from Congress could broaden the applicability for employers nationwide. It can serve as a model for other companies that want to incorporate similar programs into their own benefits offerings in an effort to balance both student loan payoffs and retirement savings needs.

SLRPs and diversity

SLRPs may help meet the needs of a diverse workforce because women and minorities have disproportionately more student loan debt. A 2015 study conducted by EdAssist, a strategic tuition-assistance company, found that Millennial women were 50% more likely to have student loan debt than men.[3] A Brookings report found that black graduates with bachelor's degrees owe an average of $7,400 more than white graduates.[19]

[18] American Student Assistance, "Young Workers and Student Debt Survey Report," February 2017.
[19] Brookings, "Black-white disparity in student loan debt more than triples after graduation," October 2016.

To make SLRP implementation easier, third-party providers offer turnkey, cost-effective platforms. Employers get the flexibility to design a program around a comprehensive suite of services, including:

- **Advice:** Easy to understand loan education and guidance, plus optimized loan repayment scenarios based on personal objectives;
- **Payments:** A compliant and secure system to help employers reallocate benefit resources to employee student debt for the most positive impact;
- **Match:** Tie employee student loan payments to a 401(k) match formula;
- **Refinancing:** Integrated refinancing options to save money through lower negotiated interest rates.

Personalized guidance, confidentiality of personal financial information and the ability to compare available payment options are key benefits of third-party provider platforms. An initial analysis of people who use the student debt payment component offered by Vault showed a 28% improvement in job tenure.[20] Recent Voya customer surveys have shown that employees value these features so employers should consider employee preferences as they evaluate SLRP providers.[12]

The Benefits of Student Loan Assistance[18]

Percentage of employees who would take advantage of:

A sign-on bonus to help with student loans	93%
Employer match to help pay down student loans	92%
Overall long-term financial planning	89%
5-year commitment to a company	86%
Financial literacy training	82%
Free access to a student loan debt counselor	79%

SLRPs are poised to become a differentiator for employers who want their benefits offerings to set them apart from the crowd. The Society for Human Resource Management's (SHRM's) 2019 Employee Benefits survey found that just 8% of U.S. companies currently offer student loan repayment assistance.[21] But that number is projected to rise to 32% by 2021, according to a 2018 Willis Towers Watson survey.[22] Employees' needs are driving employer acceptance and adoption of Student Loan Repayment Programs.

[20] Vault internal data.
[21] SHRM, SHRM Employee Benefits 2019, 2019.
[22] Willis Towers Watson, "Insights from the 2018 Willis Towers Watson Emerging Trends: Voluntary Benefits and Services Survey," May 2018.

SLRPs are new and employers have questions

Employer-sponsored student debt programs are still relatively new, and in some cases, companies are testing the regulatory waters with program implementations. Congress is considering legislation to address many of the issues but until rules have been written into law, companies are being careful about how they roll out these benefits. In some cases, employers may need to obtain a private letter ruling from the IRS to implement certain repayment plans.

Here are some of the questions employers are grappling with at this early stage:

- **Won't these programs cost a lot of money?**
  There are hard dollar costs associated with matching contributions or direct loan payments on behalf of employees. But in the case of a match model, the dollars being contributed are often already reserved for 401(k) matches. Employees get a benefit they otherwise would not receive, which may improve retention as well as increase retirement plan participation and balances. According to a June 2019 EBRI Issue Brief, employers are becoming more comfortable with the costs of available solutions and view financial wellness programs—including SLRPs—as an investment worth funding. The EBRI survey indicated that 46% of employers fully fund their financial wellness programs with 48% sharing the cost with employees in some manner.[23]
- **Is it an issue to provide benefits to some workers and not to others?**
  There is plenty of precedent in offering benefits that are targeted to a portion of the workforce. Disability benefits and tuition reimbursements are just two examples. Student debt cuts across all age groups and potentially impacts a larger percentage of a workforce than one might think.
- **Are there tax liabilities for employees?**
  Currently, repayment plans characterize employer contributions or matches as taxable income to the employee. There is momentum in Congress to change the tax law for these contributions, and if that happens, the programs may become even more desirable for employees. Despite tax treatment, this benefit still helps employees and is viewed as attractive.
- **For a match program, are there plan design implications to consider?**
  - **Private letter ruling**—To date, there is no federal legislation or regulatory guidance that would give employers a safe-harbor to add this (or a similar) feature to their defined contribution retirement plans. Nevertheless, several other major employers in the U.S. have followed suit. An employer contemplating offering a student loan repayment plan design should seek legal counsel regarding whether a private letter ruling request should be filed with the IRS to ensure that its proposed plan design does not adversely impact the tax-qualified status of its retirement plan.

[23] EBRI, EBRI Issue Brief, June 2019.

- **Assess state and local laws**—If an employer is a governmental entity, assess state and local law for authority to add this feature to the plan. State and local law typically describes plan design for retirement plans sponsored by a governmental employer. Such laws should be assessed to determine whether there is sufficient authority to permit a governmental employer to offer this feature under its retirement plan.
- **Amend the plan document**—If the employer will be offering this feature under its retirement plan document, the plan document will need to be amended to reflect this new employer non-elective contribution. If the employer currently has an IRS pre-approved plan document, such an amendment may cause the plan to be considered an individually designed plan.
- **Determine any plan administration or other plan design implications**—This new employer non-elective contribution will be subject to IRS annual contribution limits and nondiscrimination requirements (unless the employer were a governmental entity or certain 403(b) church-related sponsors). Safe Harbor 401(k) plans may not be eligible to implement this type of plan design feature.

- **What about employee financial confidentiality and privacy?**
  Ensuring that personal information remains confidential is key to driving acceptance of these programs. Employees want student loan assistance, but they do not want their employer to know how much debt they have and many are not particularly comfortable sharing any personal financial information. Having a third-party provider manage the program and the personal data addresses this concern.

Plan sponsors may have other considerations as well. Such as, might there be liability with respect to providing access to advice for employees? Or, what are the implications of a match program on retirement plan non-discrimination testing? Complex questions like these will be addressed as student loan employee benefit programs mature.

Managing student loan debt is a natural fit within a financial wellness program

Nearly two-thirds of employers say they will take steps to focus on the financial well-being of their employees in ways that go beyond retirement savings.[24] And, it's a priority for employees, too. PwC's 8th Annual Employee Financial Wellness Survey found that 78% of employees would consider moving to another company that cares more about their financial wellness.[10]

Financial wellness in the workplace is about helping employees overcome the financial bumps in the road. Employers recognize the need to reduce financial stress, attract and retain employees and boost overall worker satisfaction. Employees want to live for today, prepare for tomorrow and feel confident in the future.

Financial wellness programs are seen by many as an effective way to accomplish these goals. Without preparation and an ability to absorb shock, participants will not be prepared for retirement. Helping your employees avoid or repay student loan debt will allow them feel and be ready for the future they envision.

According to a June 2019 survey by the Employee Benefit Research Institute (EBRI) **51% of large U.S. companies offer some type of financial wellness program.**[23]

[24] Alight Solutions, 2019 Hot Topics in Retirement and Financial Wellbeing, 2019.

Key takeaways

Student loan debt is pervasive across every age segment in the workforce. It's creating financial stress that's hurting worker productivity and preventing employees from saving for retirement and other long-term goals. And the problem is growing. Employees are looking to their employers for solutions.

After health insurance, student loan assistance is the most demanded employee benefit, according to Vault, an industry-leading student loan benefit technology provider. Therefore, even though these programs are relatively new, it's easy to see why they are rapidly gaining traction among employers. Companies are starting to recognize the value of offering support to pre-college planners while leveraging innovative programs to help post-college payers pay down loans quicker and increase retirement plan contributions.

Assisting employees with student loan debt offers a host of potential benefits to employers including:

- Improved workforce productivity
- Increased retirement readiness of employee population
- Achieved talent objectives
- Improved financial wellness
- Demonstrated commitment to employees through meaningful benefit packages

For more information, visit ForEmployers.Voya.com or contact your Voya representative.