EBRI FAST Facts
March 4, 2021, #387

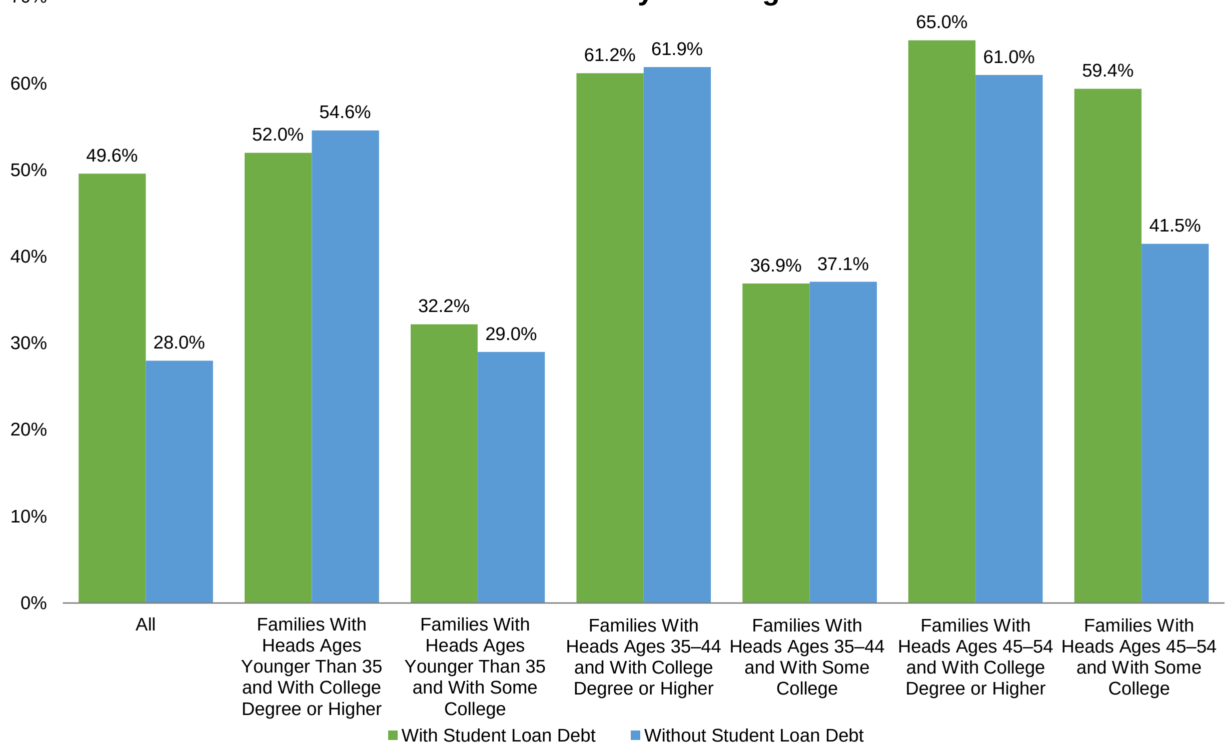
Is Having Student Loan Debt Bad for Retirement Savings?

The high cost of a college education has caused more American families to have taken on student loan debt. Often individuals do so with the understanding that having a college degree typically will facilitate greater lifetime earnings potential, leaving these individuals overall better off than if they did not assume the student loan debt. This *Fast Fact* examines a measure of overall financial health: the ownership of defined contribution (DC) plans for families with and without student loan debt in 2019. It does so by using data from the Federal Reserve's Survey of Consumer Finances (SCF).[1] The differences overall and by family head age and educational attainment are presented.

A Mixed Picture, Except for One Thing: Getting the Degree Links to Higher DC Plan Ownership

When looking at all families, the incidence of student loan debt is strongly positively correlated with having a DC plan. Nearly half (49.6 percent) of families with student loan debt had a DC plan compared with 28.0 percent for those without it (Figure 1). This is not surprising, as families with student loan debt are more likely to have higher educational attainment and higher incomes than those without student loan debt.

Figure 1
Percentage of Families With a Defined Contribution Plan, by Student Loan Debt Incidence and Family Head Age and Educational Attainment



Source: Employee Benefit Research Institute estimates of the 2019 Survey of Consumer Finances.

However, a more mixed picture emerges when comparing DC plan ownership across families with heads of the same ages and educational attainment. Indeed, as Figure 1 also shows, among families with young heads (younger than 35) and a college degree or higher, DC plan ownership was actually slightly lower for those with student loan debt (52.0 percent) compared with similar families without student loan debt (54.6 percent). However, among families with older heads (ages 45 to 54) and a college degree or higher, those with student debt had a higher likelihood of having a DC plan (65.0 percent) than those without student debt (61.0 percent).

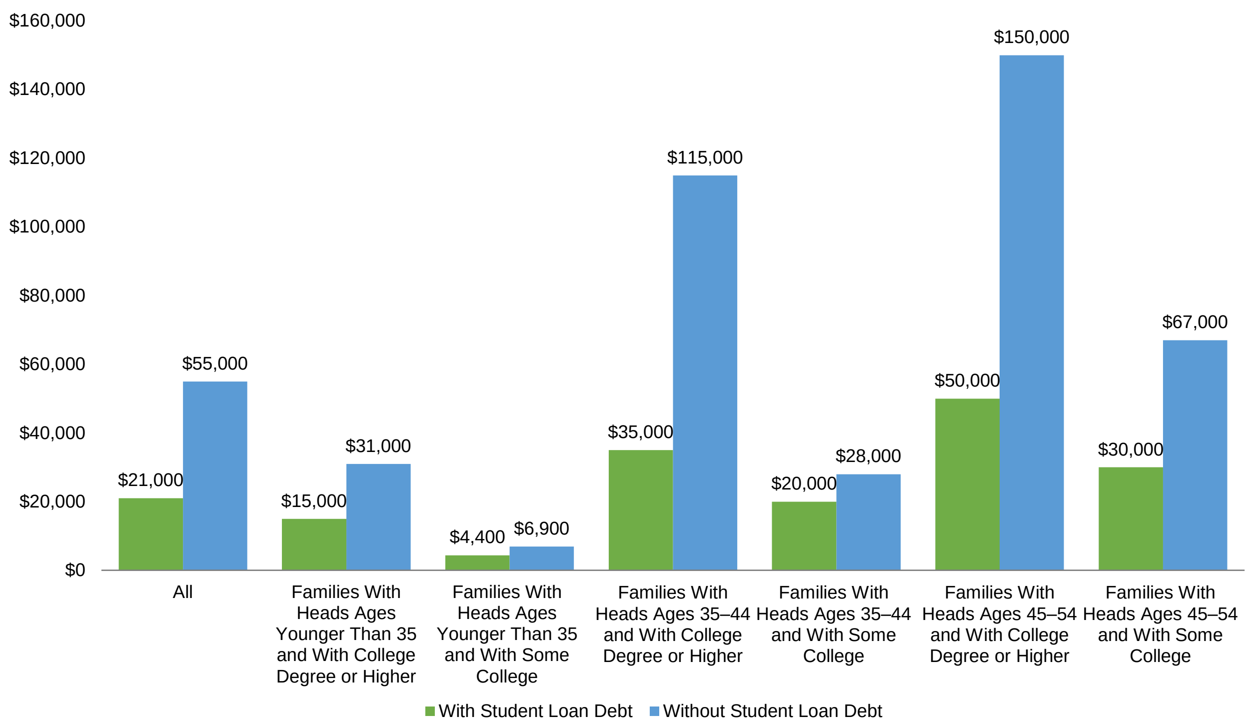
Nonetheless, the likelihood of DC plan ownership was generally much higher for families with heads who have a college degree or higher vs. those who do not have a degree.

When They Have a DC Plan, Unencumbered Families Save More

For those with a DC plan, Figure 2 paints a stark picture of the differences in ability to amass assets within the plan between those with and without student loan debt. The families without student loans — regardless of the ages and educational attainment of the families' heads — had higher median balances than the families with student loan debt. For example, the median DC plan balance for families with heads ages 35 to 44 with a college degree or higher was $115,000 for those without student loan debt vs. $35,000 for those with student loan debt.

Again, having the college degree factors heavily into wealth accumulation: The median DC plan balances of families with heads not having a college degree were lower compared with those having a college degree or higher across these ages and educational attainments.

Figure 2
Median Defined Contribution Plan Balance of Those Having a Plan, by Student Loan Debt Incidence and Family Head Age and Educational Attainment



Source: Employee Benefit Research Institute estimates of the 2019 Survey of Consumer Finances.

Are Those With Student Loan Debt Worse Off?

Clearly, getting the college degree is a key factor when it comes to amassing wealth within a DC plan, whether or not there is student loan debt involved. However, when it comes to a comparison between families with heads of the same educational attainment, those with student loans appear to be worse off, having materially lower balances in the DC plan.

These findings are important as policymakers consider approaches to reducing the student loan debt of families vs. helping other families who may be struggling to pay everyday expenses.

The EBRI report, "Student Loan Debt: Who Has It and How Much?," is published as the January 2021 *EBRI Issue Brief*, and is available online here.

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[1] See Bhutta, Neil et al., "Changes in U.S. Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances." *Federal Reserve Bulletin*. vol. 106, no. 5 (September 2020): 1–42, https://www.federalreserve.gov/publications/files/scf20.pdf (last reviewed March 2021) for more information on the Survey of Consumer Finances.

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