Student Loan Debt: Who Has It, What Is Its Impact, and What Are Employers Doing to Help?

EBRI Webinar
March 11, 2021
Speakers

Craig Copeland, Senior Research Associate, EBRI

TJ Donovan, Head of Sales — Gradifi by E*Trade, E*Trade Financial Corporate Service

Josh Dietch, Vice President and Group Manager – Retirement Thought Leadership, T.Rowe Price

Moderator: Kelsey Bradbury, Senior Research & Insights Consultant, Consumer Insights, Lincoln Financial Group
Data Source: Survey of Consumer Finances (SCF)-triannual survey from the Federal Reserve-considered the best source for wealth of American families (2019 latest)

• Student Loan Debt
  • Percentage of families having student loan debt by various characteristics
  • Distribution of the student loan balances held (25th percentile-90th percentile, average)
    ▪ Comparisons of median balances by key family or family head characteristics
  • Distribution of required monthly payments (25th percentile-90th percentile, average)
  • Percentage of family income that the payments represent

• The racial/ethnicity categories from SCF are self-identified and include white, non-Hispanic; Black/African American; Hispanic; and other, which consists of those races/ethnicities not defined in the three prior categories, such as Asian Americans and those who identify as multiracial. SCF is at the family level, so the characteristics of the family head (or the reference person) are used to categorize the families.
PERCENTAGE OF FAMILIES HAVING STUDENT LOAN DEBT BY VARIOUS CHARACTERISTICS
Percentage of Families Who Have Student Loan Debt, 1992-2019

Percentage of Families Who Have Student Loan Debt, by Family Income Quartile, 2019

Source: EBRI estimates of the 2019 Survey of Consumer Finances.
Percentage of Families Who Have Student Loan Debt, by Age of Family Head, 2019

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;35</td>
<td>41.4%</td>
</tr>
<tr>
<td>35-44</td>
<td>33.7%</td>
</tr>
<tr>
<td>45-54</td>
<td>23.3%</td>
</tr>
<tr>
<td>55-64</td>
<td>12.2%</td>
</tr>
<tr>
<td>65 or Older</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Source: EBRI estimates of the 2019 Survey of Consumer Finances.
Percentage of Families Who Have Student Loan Debt, by Race/Ethnicity of Family Head, 2019

- **White Non-Hispanic**: 20.0%
- **Black/African American**: 30.2%
- **Hispanic**: 14.3%
- **Other**: 24.3%

Source: EBRI estimates of the 2019 Survey of Consumer Finances.
## Distribution of Families With Student Loan Debt, by Various Demographic Characteristics, 2019

<table>
<thead>
<tr>
<th>Family Income Quartile</th>
<th>&lt;35</th>
<th>35-44</th>
<th>45-54</th>
<th>55-64</th>
<th>65 or Older</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>17.3%</td>
<td>25.3%</td>
<td>29.6%</td>
<td>27.9%</td>
<td>40.5%</td>
</tr>
<tr>
<td>Second</td>
<td>26.2%</td>
<td>18.7%</td>
<td>10.7%</td>
<td>4.0%</td>
<td>60.6%</td>
</tr>
<tr>
<td>Third</td>
<td>29.6%</td>
<td>18.7%</td>
<td>10.7%</td>
<td>4.0%</td>
<td>60.6%</td>
</tr>
<tr>
<td>Highest</td>
<td>35.6%</td>
<td>26.2%</td>
<td>29.6%</td>
<td>27.9%</td>
<td>40.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Family Head Age</th>
<th>White</th>
<th>Black</th>
<th>Hispanic</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;35</td>
<td>20.1%</td>
<td>6.4%</td>
<td>12.9%</td>
<td>42.1%</td>
</tr>
<tr>
<td>35-44</td>
<td>18.7%</td>
<td>10.7%</td>
<td>6.4%</td>
<td>26.3%</td>
</tr>
<tr>
<td>45-54</td>
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<td>10.7%</td>
<td>6.4%</td>
<td>26.3%</td>
</tr>
<tr>
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<td>18.7%</td>
<td>10.7%</td>
<td>6.4%</td>
<td>26.3%</td>
</tr>
<tr>
<td>65 or Older</td>
<td>18.7%</td>
<td>10.7%</td>
<td>6.4%</td>
<td>26.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Family Head Race/Ethnicity</th>
<th>Bottom 25%</th>
<th>25-49.9</th>
<th>50-74.9</th>
<th>75-89.9</th>
<th>Top 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>19.8%</td>
<td>19.8%</td>
<td>9.2%</td>
<td>2.7%</td>
<td>42.1%</td>
</tr>
<tr>
<td>Black</td>
<td>26.3%</td>
<td>26.3%</td>
<td>9.2%</td>
<td>2.7%</td>
<td>42.1%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>12.9%</td>
<td>12.9%</td>
<td>6.4%</td>
<td>2.7%</td>
<td>42.1%</td>
</tr>
<tr>
<td>Other</td>
<td>42.1%</td>
<td>42.1%</td>
<td>26.3%</td>
<td>26.3%</td>
<td>42.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Worth</th>
<th>10.0%</th>
<th>20.0%</th>
<th>30.0%</th>
<th>40.0%</th>
<th>50.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest</td>
<td>10.0%</td>
<td>20.0%</td>
<td>30.0%</td>
<td>40.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Second</td>
<td>20.0%</td>
<td>40.0%</td>
<td>60.0%</td>
<td>80.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Third</td>
<td>30.0%</td>
<td>60.0%</td>
<td>90.0%</td>
<td>120.0%</td>
<td>150.0%</td>
</tr>
<tr>
<td>Highest</td>
<td>40.0%</td>
<td>80.0%</td>
<td>120.0%</td>
<td>160.0%</td>
<td>200.0%</td>
</tr>
</tbody>
</table>

Source: EBRI estimates of the 2019 Survey of Consumer Finances.
Share of the Total Value of Student Loan Debt Held, by Specific Groups, 2019

Net Worth or Family Income Top 50%

- 67.9%

Net Worth or Family Income Top 50% or Family Head With a College Degree

- 87.7%

Source: EBRI estimates of the 2019 Survey of Consumer Finances.
Distribution of Whose Education the Student Loan Debt Financed, 2019

- Adult: 84.6%
- Child: 12.2%
- Both: 3.2%

Source: EBRI estimates of the 2019 Survey of Consumer Finances.
STUDENT LOAN BALANCES
Distribution of Student Loan Balances Held by Families, 1992, 2010, and 2019

Growth at the Median
2010-2019—44%
1992-2019—286%

Growth at the Average
2010-2019—33%
1992-2019—224%

Median Student Loan Balances (of Families Having This Debt), by Various Characteristics of the Family or Family Head

Source: EBRI estimates of the 2019 Survey of Consumer Finances.
STUDENT LOAN PAYMENTS
Distribution of Reported Required Family Monthly Student Loan Debt Payments and of the Percentage of Family Income That the Debt Payments Represent, 2019

Percentage of Families With Student Loan Debt Payments Above Various Percentage of Family Income Thresholds, 2019

Takeaways

• The percentage of families with student loan debt more than doubled from 1992 to 2019 but had leveled off from 2016 to 2019.

• Families with higher incomes (top 2 quartiles) and family heads who were younger or were Black/African American were more likely to have student loan debt.

• Among the families having student loan debt, families with white, non-Hispanic heads represented 60 percent, those with heads younger than 35 — 40 percent, those with incomes in the top half — 57 percent, and those with net worth in the lowest quartile — 42 percent.

• Families with incomes or net worths in the top half held 67.7 percent of the student loan debt in 2019.

• The median student loan balance among the families having this debt was $22,000 in 2019. This debt required a median monthly payment of $200. At the median, these payments translated into 3.2 percent of family income.
STUDENT LOAN DEBT AND RETIREMENT SAVINGS

Joshua Dietch – VP, Retirement Thought Leadership
Framing the retirement savings and student loan debt problem – Dueling crises

$3.8 trillion

Americans estimated retirement savings shortfall

$1.5 trillion

Amount of money Americans owe in government-issued student loan debt

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2 T. Rowe Price analysis of Federal Student Loan Portfolio (inclusive of Direct, Federal Family Education Loans, and Perkins Loans)
Participants with student loan debt are less likely to save for retirement

Student Loan Debt and Retirement Plan Participation

- **Participant**
  - Making student loan repayments: 72.4%
  - Not making student loan debt repayments: 27.6%

- **Non-participant**
  - Not making student loan debt repayments: 65.3%
  - Making student loan repayments: 34.7%

Source: T. Rowe Price Student Loan Survey, December 2019
Using a sharper lens - Gen Xers with student loan debt struggle more than others to save for retirement

Retirement Plan Participation and Incidence of Student Loan Debt

<table>
<thead>
<tr>
<th></th>
<th>No Student Loan Debt</th>
<th>Has Student Loan Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonparticipant</td>
<td>56.6%</td>
<td>43.4%</td>
</tr>
<tr>
<td>Participant</td>
<td>56.4%</td>
<td>43.6%</td>
</tr>
<tr>
<td>Nonparticipant</td>
<td>59.6%</td>
<td>40.4%</td>
</tr>
<tr>
<td>Participant</td>
<td>75.3%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Nonparticipant</td>
<td>82.0%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Participant</td>
<td>83.4%</td>
<td>16.6%</td>
</tr>
</tbody>
</table>

Source: T. Rowe Price Student Loan Survey, December 2019
Student loan debt is viewed as “good” debt

Perception of Student Loans

- Strongly agree: 25%
- Agree: 39%
- Neutral: 22%
- Disagree: 8%
- Strongly Disagree: 6%

Education is a good investment for the future, even if it means taking on loans to pay for it

Source: T. Rowe Price Student Loan Survey, December 2019
Borrowers view student loan debt as long-term debt

Perception of Student Loan Debt Repayment Duration

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short- to Intermediate-Term Debt</td>
<td>7%</td>
<td>27%</td>
<td>26%</td>
<td>26%</td>
<td>13%</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>26%</td>
<td>34%</td>
<td>17%</td>
<td>15%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: T. Rowe Price Student Loan Survey, December 2019
Retirement is by far the greatest financial priority of savers

Financial Priorities of Savers

Source: T. Rowe Price Retirement Savings and Spending Study, 2019
Daily living expenses are the most common barrier to saving for retirement

Reasons for Not Participating or not Savings 15% of Wages

- Day-to-Day Living Expenses: 31.0%
- Credit Card Debt: 14.3%
- Student Loan Debt: 11.1%

Source: T. Rowe Price Student Loan Survey, December 2019
Delaying of student loan debt repayment could impact the timing of other lifestage financial goals

Hypothetical Lifestage Financial Goals

- Age 20
  - Repay student loans
  - Save to purchase residence

- Age 30
  - Save for future education expense

- Age 40
  - Repay mortgage

- Age 50
  - Save for retirement

Hypothetical timeline of debt repayment and savings goals
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202103-1545029
THANK YOU
How student loan repayment benefits can empower your workforce and your bottom line

TJ Donovan, Head of Sales — Gradifi by E*Trade
Student loan debt has an impact on the workforce...

- 67% of employees reported feeling stressed about their finances
- 80% of working professionals with student loan debt consider it to be a source of significant or very significant stress

2. Oliver Wyman, "The Student Loan Repayment Benefit – Opportunities to Serve a Pressing Financial Need," 2017
With student debt at an all time high, your employees’ priorities have changed, but your company benefits likely haven’t.

According to an Oliver Wyman survey, among working professionals with student debt:

- 80% of respondents consider their debt to be a source of significant stress.
- 45% also selected student loan repayment assistance as the single most compelling employee benefit among potential options that included additional retirement and health care contributions.
- 58% indicate that they would prefer that their employer make payments to help reduce their student debt versus making additional contributions to their retirement funds.
- 90% of these respondents indicated that student loan repayment assistance would positively impact their decision to accept a job offer, to recommend an employer or to want to stay at their current employer.\(^1\)

1. Oliver Wyman 2017 Survey of Student Loan Finances. Conducted May 2017. Survey included 3,002 US households between 18-50 in age, with a bachelor’s degree or more, who are either employed or seeking employment. Of the 3,002 households that qualified to complete the survey, 1,012 had outstanding student loans.

But only

- 8% of employers currently offer student loan repayment assistance as a benefit.\(^2\)

Tax legislation regarding student loan repayment benefits

• The CARES Act is a stimulus package passed by Congress in March 2020. It included provisions regarding the tax treatment of employer contributions towards employee student debt. Up to $5,250 per employee annually will be tax-free when it comes to employer contributions.

• The new law amends Section 127 of the Internal Revenue Code to extend an existing tax exclusion for employer-provided educational assistance to include payments of qualified education loans by an employer.

• The legislation regarding student loan repayment benefits was extended for five years, through 2025. This was originally part of the CARES Act, but was extended in the Consolidated Appropriations Act, 2021.
Impact of a $100 monthly employee contribution to the median bachelor’s degree borrower

Assumptions: $26,500 loan balance, 4% rate, and 10-year term

Pay off debt 3 years, 1 month earlier and save $10,046 with a $100 monthly employer contribution

Estimated savings include total SLP contributions plus estimated interest savings. Assumes extra payments are applied throughout repayment term of the loan and that borrower continues to make regular monthly payments. Individual savings will vary.
The impact to your bottom line

This commonsense solution allows for employees to receive up to $5,250 per year towards their student loans tax-free.

This is a benefit that employees have asked for and are looking for. This is a way to keep the talent you worked hard to find, and market to those who are looking for help from an innovative employer.

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**Cost of Benefit**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Eligible Employees</td>
<td>1,000</td>
</tr>
<tr>
<td>Estimated Participants</td>
<td>250</td>
</tr>
<tr>
<td>Monthly Contribution</td>
<td>$100</td>
</tr>
<tr>
<td>Annual Contribution/Participants</td>
<td>$1,200</td>
</tr>
<tr>
<td>Total Annual Budget</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

**Cost of Turnover**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Employees Impacted</td>
<td>250</td>
</tr>
<tr>
<td>Estimated Attrition</td>
<td>16%¹</td>
</tr>
<tr>
<td># of Employees</td>
<td>40</td>
</tr>
<tr>
<td>Est. Cost of Turnover</td>
<td>$72,000²</td>
</tr>
<tr>
<td>(assuming average employee income of $145,000)</td>
<td></td>
</tr>
<tr>
<td>Total Cost of Turnover</td>
<td>$2,880,000</td>
</tr>
</tbody>
</table>

Savings of $360,000 if just five of these employees stay

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¹ For modeling purposes only, assumes generic company and utilization estimates
² Percentage is for illustrative purposes and does not represent actual statistics
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Q&A
Upcoming Events

Wednesday, March 24 — Unraveling the Retirement Nest-Egg Calculus: Why Do People Spend the Way They Do in Retirement? Featuring a Members-Only After Show Discussion

Wednesday, April 7 — The Three Certainties of Life: Death, Taxes, and Updates From EBRI’s HSA Database

Wednesday, April 21 — Location, Location, Location: The Impact of Site of Treatment on Health Care Costs

Save the Dates:
American Savings Education Council Partners’ Meeting
Savings Considerations for Minorities in America
April 29
Spring Virtual Policy Forum May 10, 11, and 13