



# **The Impact of Student Loan Debt on Defined Contribution Retirement Plan Participation: Plan Sponsor Perspective**

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# Introduction

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**Purpose:** *To determine if plan sponsors are responding to the perceived problem of student loan debt impacting retirement plan savings.*

**Problem Overview:** During a roundtable discussion hosted by PSCA in March, 2015, a plan sponsor representative asked her peers for ideas to increase 401(k) plan participation among Millennials who cited student loan debt as a driving factor in their underutilization of the plan. While other plan sponsor representatives agreed it was a problem, there was disagreement about the scope of the problem and the necessity for plan sponsors to get involved. Since then, the issue has increasingly surfaced in other roundtable discussions and articles, and a trend toward action among a growing number of plan sponsors may be forming.

**Background:** Since PSCA members are asking if, and to what degree, student loan debt might be contributing to reduced participation in their defined contribution plans, especially by Millennials, and are looking to see if other companies are addressing it in any way, PSCA conducted a brief snapshot survey of its members.

Looking into the existing data, we can see why there appears to be a problem.

- According to the Pew Research Center, annual borrowing per full-time equivalent student nearly tripled from \$2,485 in 1990-91 to \$6,928 in 2012-2013.
- Also according to the Pew Research Center, 69 percent of students graduating in 2011-12 borrowed money to finance their college education, compared to 49 percent of students graduating in 1992-93.
- According to EdVisors, the class of 2015 graduated with an average of \$35,051 in student loan debt. Thus, based on a 10-year repayment at a 6.8 percent loan interest rate, the average class of 2015 college graduate will be confronted with a monthly loan repayment of \$403 (equating to \$4,840 in annual student loan debt repayment).
- According to the National Association of Colleges and Employers (NACE), average starting salaries for the class of 2014 was \$48,127 (does not include bonuses, commissions, fringe benefits, or overtime rates). Less federal income tax, state income tax, and payroll tax, PSCA estimates the recent college graduate is left with net income of less than \$37,226 a year. If student loan debt payments are subtracted, the new hire is left with \$32,386 for the year, or \$2,699 for all other monthly expenses and savings.
- According to the Consumer Financial Protection Bureau (CFPB), nearly 25 percent of student loan borrowers are either in delinquency or default on their student loans

Given the facts, PSCA sought to learn if, and to what degree, plan sponsors were observing an impact of mounting student loan debt on Millennial behavior in employer-sponsored defined contribution retirement plans.

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# Demographics

Data contained in this report was obtained by surveying PSCA organizational members from April 12 to April 28. A total of 149 responses were collected. Respondents represented organizations of diverse sizes and industries. Of those responding, one-fourth have fewer than 50 eligible participants and one-fourth have 5,000 or more

Based on responses, the average age of eligible employees among responding organizations was 41.6 years of age, with little variation among plan size.

**Table 1: Respondent by Plan Size (Number of Eligible Plan Participants)**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Number	37	28	29	20	35	149
Percentage	24.8%	18.8%	19.5%	13.4%	23.5%	100.0%

**Table 2: Respondents by Industry Type**

Industry	Number of Plans	Percentage of Plans
Construction	5	3.4%
Durable Goods Manufacturing	14	9.4%
Engineering	1	0.7%
Financial	31	20.8%
Healthcare	5	3.4%
Insurance	10	6.7%
Non-Durable Goods Manufacturing	12	8.1%
Non-Profit Organization	8	5.4%
Real Estate	2	1.3%
Retail Trade	12	8.1%
Services	20	13.4%
Technology or Telecommunications	10	6.7%
Transportation	3	2.0%
Utility or Energy	3	2.0%
Wholesale Distribution	6	4.0%
Other	7	4.7%

**Table 3: Average Age of Eligible Employees**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Average Age	42.1	42.2	40.9	42.4	40.8	41.6

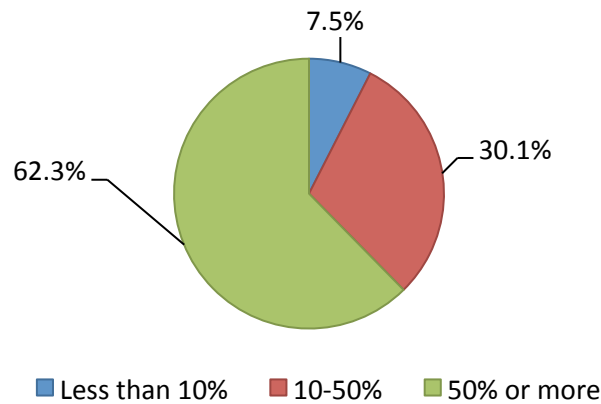
# Prevalence of College Educations

The majority of respondents (62.3 percent) reported 50 percent or more of their workforce received a 4-year college degree or higher, and another 30.1 percent reported that 10 percent to 50 percent of their workforce received a 4-year college degree or higher. This finding reinforces the importance of a 4-year college degree in employment and indicates the likelihood that a significant portion of respondents' plan participants have or had, student loan debt of some type.

**Table 4: Percentage of Plan Sponsors Reporting Employees with a 4-year College Degree or Higher**

Percentage of Employees with a 4-year degree	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Less than 10%	10.8%	3.6%	14.8%	10.0%	0.0%	7.5%
10-50%	18.9%	25.0%	22.2%	35.0%	50.0%	30.1%
50% or more	70.3%	71.4%	63.0%	55.0%	50.0%	62.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%

**Percentage of Employees with a College Education**



**Table 5: Percentage of Employees with a 4-year College Degree or Higher by Industry**

Industry	Less than 10 percent	10-50%	50% or more
Financial	0.0%	16.1%	83.9%
Insurance/Real estate	0.0%	8.3%	91.7%
Manufacturing	16.7%	40.0%	43.3%
Retail/Wholesale	17.6%	58.8%	23.5%
Services	0.0%	18.2%	81.8%
Technology or Telecommunications	0.0%	20.0%	80.0%
Other	23.1%	61.5%	15.4%
Total	7.5%	30.1%	62.3%

Note: Services includes Healthcare and Non-Profit Organizations from Table 2 and Utility or Energy is included in Other, due to small sample size.

# Tuition Reimbursement Programs Versus Student Loan Repayment Programs

While the overwhelming majority of respondents (70.1 percent) reported providing a tuition reimbursement program for active employees, very few (1.4 percent) reported offering a student loan repayment program to new hires.

Tuition reimbursement programs have been around for years and are often a great incentive for recruiting and retaining talent in competitive fields that require a minimum of a Bachelor’s degree. Student loan repayment programs in which the employer provides some type of contribution to repay student loan debt, or at a minimum facilitates some type of repayment program is a relatively new concept.

Interest in employer-sponsored student loan repayment programs appears to be growing, in particular among:

- Larger organizations: 20 percent among companies with 1,000 to 4,999 employees and 22.6 percent among employers with 5,000 or more employees
- Select industries: 20 percent of technology or telecommunications companies, 16.7 percent among insurance and real estate companies, 16.1 percent among manufacturing companies, and 14.3 percent among financial services companies

**Table 6: Percentage of Companies Providing Tuition Reimbursement to Employees**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Percentage	43.2%	64.3%	85.7%	80.0%	85.3%	70.1%

**Table 7: Percentage of Companies Providing Tuition Reimbursement to Employees by Industry**

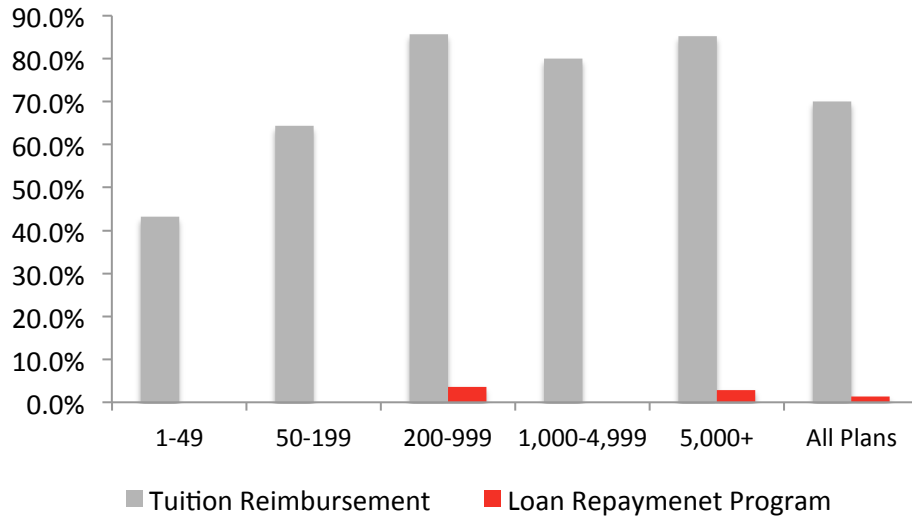
Industry	Percentage of Plans
Financial	40.0%
Insurance/Real estate	0.0%
Manufacturing	9.7%
Retail/Wholesale	44.4%
Services	48.5%
Technology or Telecommunications	10.0%
Other	30.8%

Note: Services includes Healthcare and Non-Profit Organizations from Table 2 and Utility or Energy is included in Other, due to small sample size.

**Table 8: Percentage of Companies Providing a Student Loan Repayment Program to Employees**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Percentage	0.0%	0.0%	3.6%	0.0%	2.9%	1.4%

**Percentage of Plans Providing a Tuition Reimbursement Program vs. a Loan Repayment Program**



**Table 9: Percentage of Companies Providing a Student Loan Repayment Program to Employees by Industry**

Industry	Percentage of Plans
Financial	0.0%
Insurance/Real estate	0.0%
Manufacturing	0.0%
Retail/Wholesale	0.0%
Services	6.3%
Technology or Telecommunications	0.0%
Other	0.0%

Note: Services includes Healthcare and Non-Profit Organizations from Table 2 and Utility or Energy is included in Other, due to small sample size.

**Table 10: Companies Considering Adding a Student Loan Repayment Program for Employees**

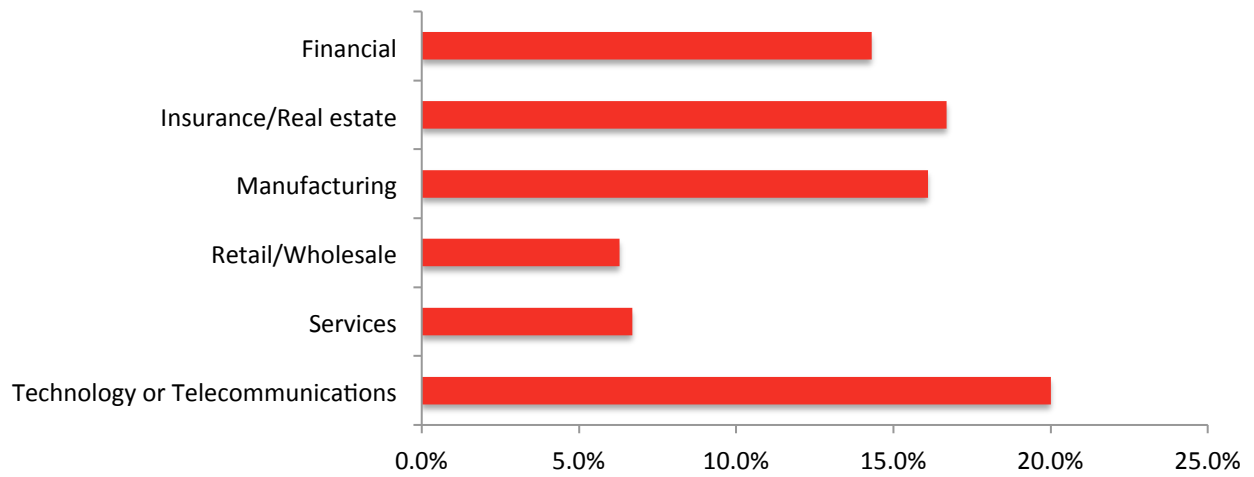
	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
No	68.6%	69.2%	70.4%	40.0%	45.2%	59.7%
Yes	8.6%	0.0%	7.4%	20.0%	22.6%	11.5%
Unsure	22.9%	30.8%	22.2%	40.0%	32.3%	28.8%
Total	100.1%	100.0%	100.0%	100.0%	100.1%	100.0%

**Table 11: Companies Considering Adding a Student Loan Repayment Program for Employees by Industry**

<b>Industry</b>	<b>Percentage of Plans</b>
Financial	14.3%
Insurance/Real estate	16.7%
Manufacturing	16.1%
Retail/Wholesale	6.3%
Services	6.7%
Technology or Telecommunications	20.0%
Other	0.0%

Note: Services includes Healthcare and Non-Profit Organizations from Table 2 and Utility or Energy is included in Other, due to small sample size.

**Percentage of Companies Considering Adding a Student Loan Repayment Program**





# Communication with Employees

Nearly one-fourth of large companies address student loan debt with employees in some way, with 15.8 percent of all plans doing so. As expected, industries with a higher portion of employees with a college degree, such as technology and services, report addressing student loan debt more so than other industries such as retail and manufacturing.

Although PSCA lacks prior data to determine the trend in companies reporting questions about student loan debt benefits from new/prospective hires, the implications of the responses from the inaugural survey is that either relatively few new/prospective hires inquire about student loan debt repayment programs in the interviewing process (6.9 percent), or the respondents to the survey are not adequately involved in the hiring process to comment.

Interestingly, the number of respondents indicating that existing employees are seeking student loan debt relief is noticeably higher than those who had inquiries from new/prospective hires (6.9 percent of new/prospective hires v. 10.8 percent of existing employees).

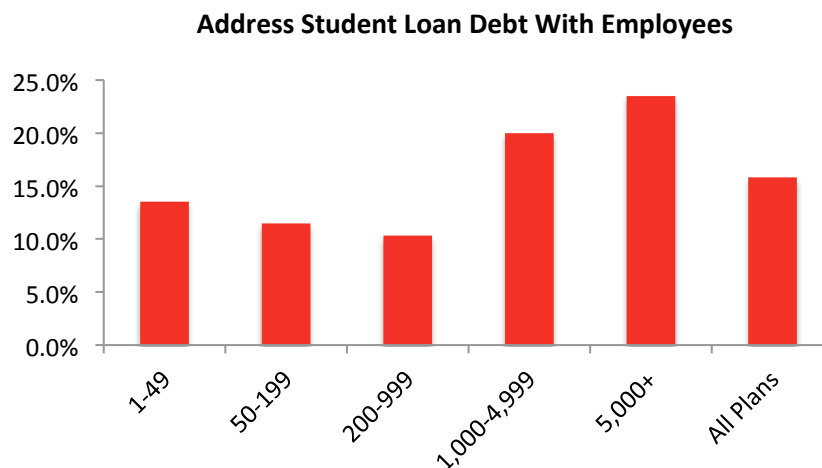
**Table 12: Percentage of Companies That Address Student Loan Debt with Employees**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Percentage	13.5%	11.5%	10.3%	20.0%	23.5%	15.8%

**Table 13: Percentage of Companies That Address Student Loan Debt with Employees by Industry**

Industry	Percentage of Plans
Financial	24.1%
Insurance/Real estate	16.7%
Manufacturing	9.7%
Retail/Wholesale	11.1%
Services	21.2%
Technology or Telecommunications	18.2%
Other	0.0%

Note: Services includes Healthcare and Non-Profit Organizations from Table 2 and Utility or Energy is included in Other, due to small sample size.



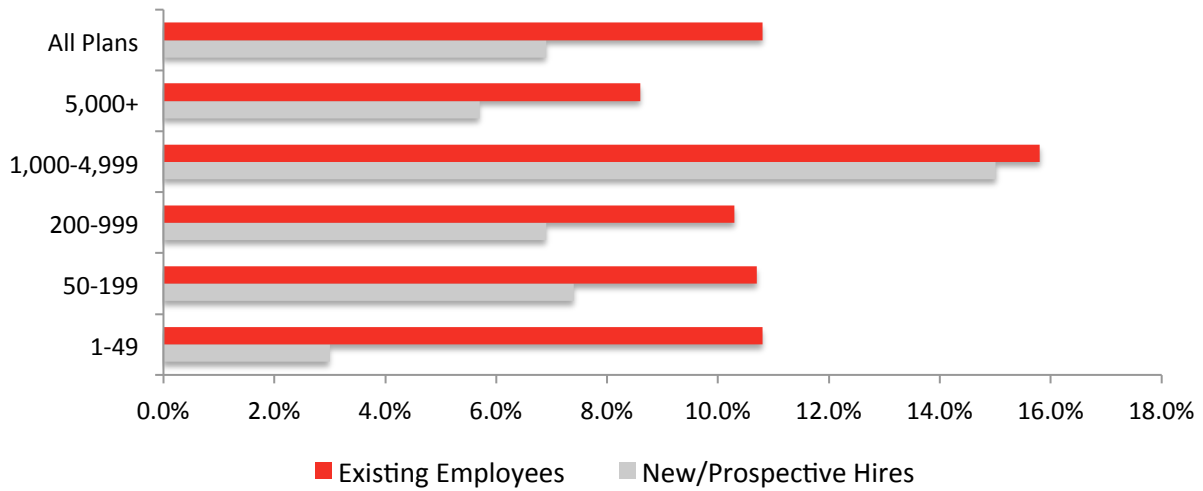
**Table 14: Companies Reporting Questions about Student Loan Debt Benefits from New/Prospective Hires**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
No	78.8%	70.4%	65.5%	50.0%	22.9%	56.9%
Yes	3.0%	7.4%	6.9%	15.0%	5.7%	6.9%
Unsure	18.2%	22.2%	27.6%	35.0%	71.4%	36.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%

**Table 15: Companies Reporting that Existing Employees are Seeking Student Loan Debt Relief**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
No	70.3%	57.1%	62.1%	42.1%	31.4%	53.4%
Yes	10.8%	10.7%	10.3%	15.8%	8.6%	10.8%
Unsure	18.9%	32.1%	27.6%	42.1%	60.0%	35.8%
Total	100.0%	99.9%	100.0%	100.0%	100.0%	100.0%

**Questions from Employees about Student Loan Debt Benefits**



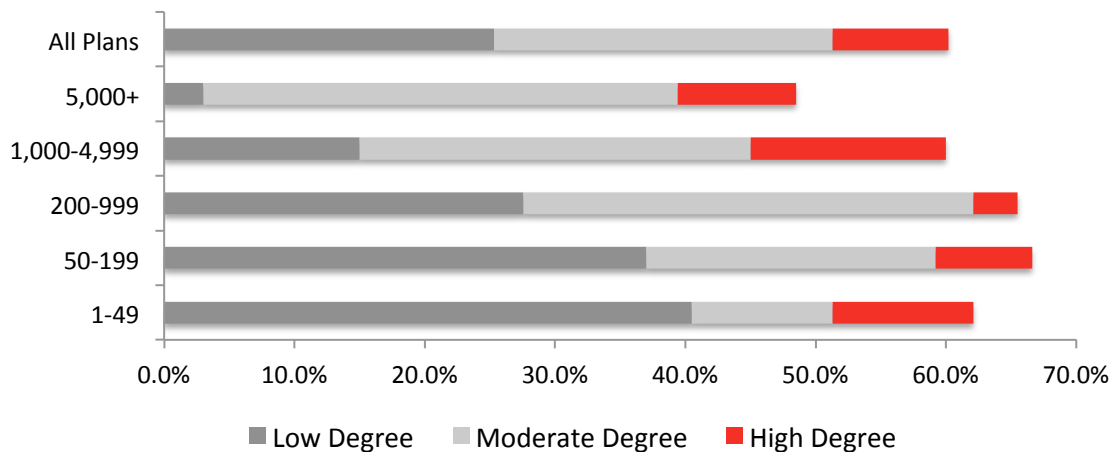
# Impact of Student Loan Debt on DC Plan Participation

According to the representatives responding to the survey on behalf of their organizations, the degree to which Millennial employees cite student loan debt as creating a “Moderate” (26.0 percent) or “High” (8.9 percent) barrier to saving for retirement is significant. These findings are particularly noteworthy within select industries, such as in the service industry where 42.5 percent of respondents rate student loan debt as a “Moderate” or “High” barrier, or in the technology or telecommunications industry where 45.5 percent of respondents rate student loan debt as a “Moderate” or “High” barrier.

**Table 16: Degree to Which Millennial Employees Cite Student Loan Debt as a Barrier to Saving for Retirement**

	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Low Degree	40.5%	37.0%	27.6%	15.0%	3.0%	25.3%
Moderate Degree	10.8%	22.2%	34.5%	30.0%	36.4%	26.0%
High Degree	10.8%	7.4%	3.4%	15.0%	9.1%	8.9%
Unsure	37.8%	33.3%	34.5%	40.0%	51.5%	39.7%
Total	99.9%	99.9%	100.0%	100.0%	100.0%	99.9%

**Degree to Which Employees Cite Student Loan Debt as a Barrier to Saving for Retirement**



**Table 17: Degree to Which Millennial Employees Cite Student Loan Debt as a Barrier to Saving for Retirement by Industry**

	Low Degree	Moderate Degree	High Degree	Unsure
Financial	25.8%	19.4%	16.1%	38.7%
Insurance/Real estate	0.0%	33.3%	0.0%	66.7%
Manufacturing	37.9%	27.6%	6.9%	27.6%
Retail/Wholesale	29.4%	5.9%	0.0%	64.7%
Services	24.2%	27.3%	15.2%	33.3%
Technology or Telecommunications	18.2%	36.4%	9.1%	36.4%
Other	23.1%	46.2%	0.0%	30.8%

Note: Services includes Healthcare and Non-Profit Organizations from Table 2 and Utility or Energy is included in Other, due to small sample sizes.