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

PSCA asks members if they are responding to the perceived problem of student loan debt impacting retirement plan savings.

By Hattie Greenan

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.

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 in April, 2016 and received responses from 149 plan sponsors.

Background

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.

Exhibit 1: Percentage of Employees with a College Education

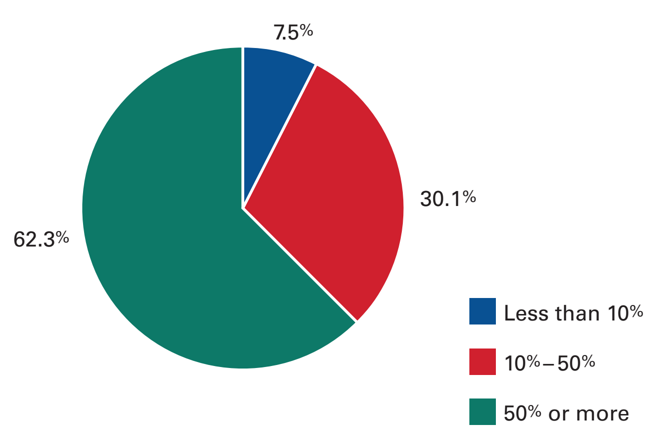
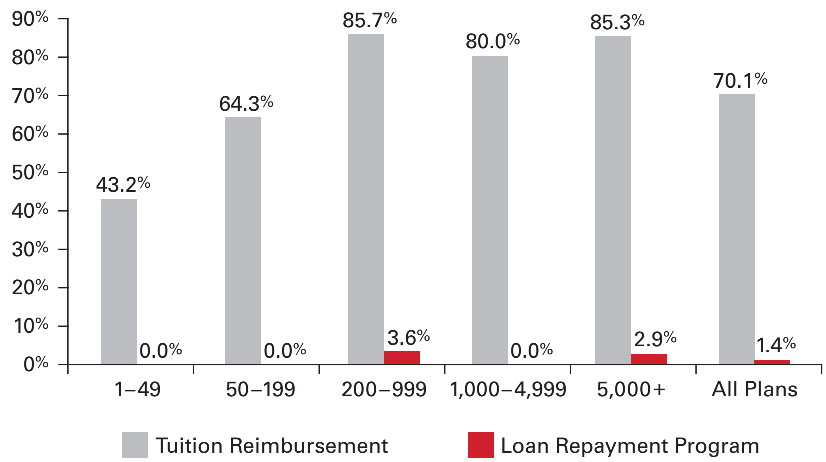


Exhibit 2: Percentage of Companies Providing Tuition Reimbursement and Student Loan Repayment to Employees



Results

Prevalence of College Educations

The majority of respondents (62.3 percent) reported 50 percent of 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. See Exhibit 1. 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.

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. See Exhibit 2.

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

See Exhibit 3.

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. See Exhibit 4. 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. See Exhibit 5.

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

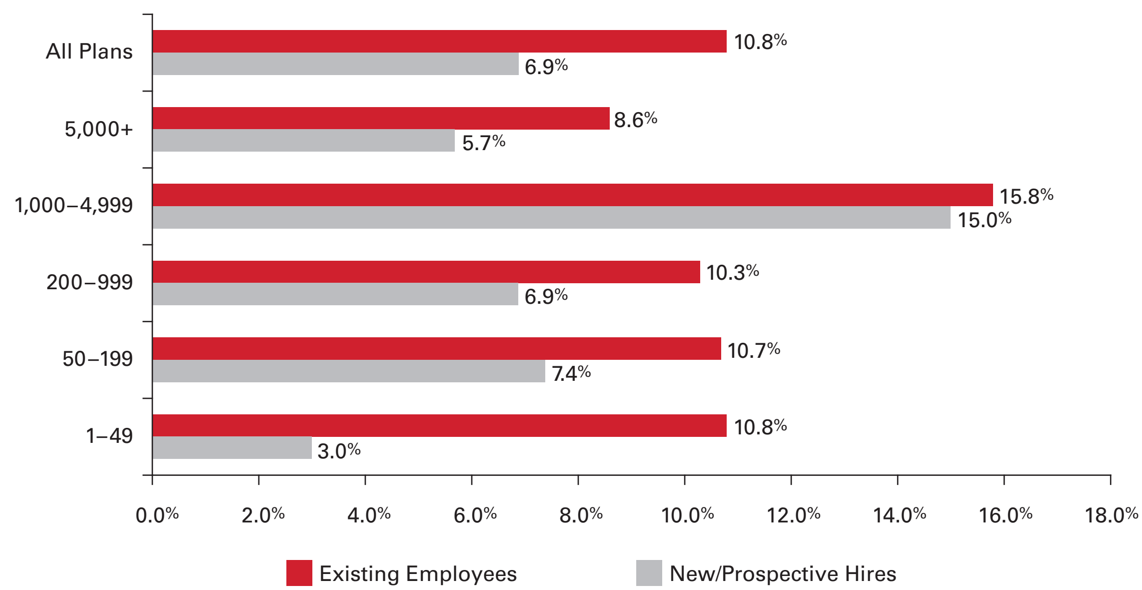
Exhibit 3: Companies Considering Adding a Student Loan Repayment Program for Employees

	Plan Size by Number of Participants					
	1–49	50–199	200–999	1,000–4,999	5,000+	All Plans
Percentage	8.6%	0.0%	7.4%	20.0%	22.6%	11.5%

Exhibit 4: Percentage of Companies That Address Student Loan Debt with Employees

	Plan Size by Number of Participants					
	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%

Exhibit 5: Companies Reporting Questions about Student Loan Debt Benefits from New/Prospective Hires and Existing Employees



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. See Exhibit 6. 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.

Conclusion

Student loan debt is a potential drastic barrier to the ability of employees to save for retirement. There are solutions arising that plan sponsors may begin implementing to help employees with college degrees balance the need to pay for their education as well as save for retirement. PSCA will continue to track this important topic. The full report is available at: http://www.psca.org/StudentLoan_survey.

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Exhibit 6: Degree to Which Millennial Employees Cite Student Loan Debt as a Barrier to Saving for Retirement