EDUCATION

Financial Wellness: Are College Costs Impacting Your Retirement?

May 20, 2019

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Recent statistics on student loan debt have found some rather alarming trends. Not only are many parents prioritizing the financing of college for their children over their own retirement, but some are still paying off their own student debt—even into their 60s. Franklin Templeton's Mike O'Brien, Roger Michaud and Drew Carrington recently sat down to discuss the intersection of college and retirement savings goals, and how employers are actually offering some solutions to help manage both.

Listen to their discussion on the topic of educational savings plans and student loan debt in our latest "TalkingMarkets" podcast.

Mike O'Brien: The 2019 Franklin Templeton Retirement Income Strategies and Expectations (RISE)[1] survey recently came out, and an interesting statistic jumped out at me. When individuals were asked about their current financial preparedness for retirement, three-fourths of those with children between the ages of 13 and 17 said that they were behind on their savings. And four out of 10 said their goals were at risk. Both of those numbers were much higher than the response from those without children, which got me thinking about the intersection of retirement and college.

Roger Michaud: Clearly, families have multiple goals. It's not just about retirement or just about college savings. It's both. Individuals should have a plan in place to address both.

In another recent survey, one-third of parents said their number one savings goal was for their children's college—even over their own retirement.[2] As college costs continue to rise, we have a situation where some pretty serious planning needs to take place as early as possible.

Mike O'Brien: We know financing education is a retirement issue, and they're both intertwined. That survey emphasized the impact college costs have on retirement. And in it, we asked parents how they had planned to finance a college education; 23% said they would withdraw money from a retirement account to help pay for college.[3] So we have a situation where many parents are delaying their retirement or reducing the quality of their lifestyle in retirement because of college costs.

In the survey we also saw the impact of outstanding student loans, the main source of financing college for many individuals. Student loans can have an impact for many years and even can span generations from parents to children.

Roger Michaud: Looking at student loans overall, roughly 45 million Americans have student loan debt today, which equates to more than $1.5 trillion in debt.[4] It's a serious problem. And of course, it's even worse for those who don't actually finish college—they have the debt but not the degree. It's shocking to see student loan debt statistics on people aged 60 and up—the number of people with student loan debt in that demographic has grown from 700,000 in 2005 to 2.8 million in 2015.[5]

You would think people would have paid off their college debt by the time they turn 60, but actually many are going back to school to begin a second career. Or, they may have been co-signers on student loans for their children and grandchildren and now it's their responsibility.

Mike O'Brien: This is the student debt sandwich; stuck between your own student loans and your child's student loans.

Roger Michaud: Looking at last year's graduating class, roughly 69% had student loan debt, which averaged $30,000 for a four-year undergraduate degree.[6] Going back to that 60+ age group, in 2015, 114,000 people receiving Social Security had their checks garnished due to student loan debt.[7] Some of their Social Security is being taken away from them because they can't control this debt and make the payments.

Mike O'Brien: So as we talk about how college costs intersect with retirement, we see that employers are actually looking at this issue as well. Many are offering employees resources to help with both. Drew, what's happening on the employer side? How are employers trying to tackle these issues of financing education as well as retirement, and in terms of overall financial wellness as a benefit to employees?

Drew Carrington: Many employers are trying to attract and retain this new generation of workers graduating with student loans. We have found the presence of a student loan reduces participation in employer-sponsored retirement (401k) plans by a statistically significant amount. Because they may have new hires concerned about paying back their loans, we've seen a number of solutions from employers to help their employees deal with student-loan overhang.

There are actually some pretty interesting ways employers have taken action within a broader concept of holistic or comprehensive financial wellness. It could just be a simple program where employees who meet certain criteria are eligible for additional compensation to pay down their student loans.

In addition to just simple repayment programs, we've also seen programs that link a 401(k) plan and paying down student loans. For example, as an employee pays additional principal on his or her student loan, the employer matches that student loan payment into the 401(k) plan. So that allows the opportunity to pay down debt, and get a head start on saving for retirement. We think that's really powerful because it gets people in the habit of saving and can give them the advantage of the tax-advantaged match from their employer.

Mike O'Brien: It really seems as though the employers are searching for new and better ways to be the hub for their employees' financial wellbeing.

Drew Carrington: I think that's right. There's certainly plenty of data on how financial stress impairs productivity, and certainly student loan debt would be one of those stressors. So to the extent employers can help their employees address that financial stress and help them gain more control—I think that's a win.

The student loan is certainly a pain point, but we're also seeing employers start to think about ways they can help people save for education in the future, too. So not just the recent college graduate with student loan debt, but also parents of children who are approaching college. Maybe something like a health savings account can help address the challenges of medical costs, even into retirement.

So this notion of the employer as kind of a hub of an individual's financial life is intriguing and perhaps unexpected in some ways. But many have found it's powerful both in attracting and retaining their current employees; helping them be more productive and less stressed.

Mike O'Brien: It's important that we don't t think of different silos of investing anymore. There's not a retirement silo, an education silo and a health savings silo—they all work together.

Roger, as you think about the coming years, what does the future hold as we look to help families facing the challenge of financing education and their retirement needs?

Roger Michaud: I think financial advisors are taking a more serious look at both of those goals and trying to build programs or plans that can allow them to succeed. Not only to be comfortable in retirement, but to make sure assets are there when it's time to start paying for college costs and moving away from relying on student loans. I think individuals themselves are getting more serious about it; there's a real sense of reality setting in. These are the types of conversations financial advisors and planners are having with their clients. Where in the past, they may have been solely talking about retirement and maybe a little bit of college savings, those conversations are kind of intertwined today.

Drew Carrington: Even in Washington D.C., we are seeing policymakers recognize how these issues are intertwined. They are looking for ways to make it easier for employers to help their employees tackle their debt and save for the future. The idea we talked about, matching contributions for student loan repayment into the 401(k) is one example. We could potentially see an expansion of employer tuition-assistance programs. There's a lot of interest in this topic as part of this broader, more holistic financial wellness concept, and I think it's, it's very, very positive for where we're headed.

Roger Michaud: There are multiple pieces of legislation on the federal level as well across all 50 states to help make 529 college savings plans stronger and better going forward. Things like providing tax incentives, incentives for employers to set up payroll deductions for 529 savings plans, right alongside the 401(k) plan.

There's also the recognition that not all young people want to pursue a traditional four-year college. Maybe they want to pursue a trade, and they need opportunities to save for training beyond high school, too. Lastly, just recently this current administration talked about putting a maximum cap on the amount of student loan debt a person could take on. On the surface, it looks like it could keep people out of a four-year university or even a community college if they need more money to finance it beyond the cap. But I think it's telling these educational institutions to put the brakes on this rising cost of college and do something about it.

Mike O'Brien: Here are my two takeaways from this discussion. One, we have to look at saving for retirement, education and any other financial goals with a holistic approach. Second, there is an increasing amount of activity occurring in recognition of the importance of financial wellbeing issue on both the employer and legislative front. It's an exciting time.

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1. The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults comprising 1,000 men and 1,002 women 18 years of age or older. The survey was administered between January 17 and 28, 2019, by Engine's Online CARAVAN®, which is not affiliated with Franklin Templeton. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau.

2. Franklin Templeton College Savings Trends Survey. The survey was conducted online among a sample of 1,009 adults comprising 506 men and 503 women 18 years of age and older. The survey was administered between April 30–May 3, 2015, by ORC International's Online CARAVAN, which is not affiliated with Franklin Templeton Investments. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau. Children are defined as those age 18 or younger in the household.

3. Source: Ibid.

4. Source: Student Loan Hero, "A Look at the Shocking Student Loan Debt Statistics for 2019," February 4, 2019.

5. Sources: Federal Reserve Bank of New York Consumer Credit Panel; Equifax.

6. Source: Student Loan Hero, "A Look at the Shocking Student Loan Debt Statistics for 2019," February 4, 2019.

7. Source: AARP, Government Accountability Office 2016 report, data as of 2015.