SCHNEIDER DOWNS
Wealth Management

Why Retirement Plan Sponsors Should Care About Employee Student Loan Debt

According to the College Board, the cost of a four-year education increased more than 200% (after inflation) from 1988 to 2018. This has placed a tremendous burden on graduates, with national student loan debt now topping a staggering $1.6 trillion. Surprisingly, while grads ages 25 to 34 are most likely to carry educational loans, the greatest amount of debt is owed by 35- to 49-year-olds, making this a problem not limited to those just entering the workforce.

Whether it's through providing holistic financial wellness programming that addresses this issue or offering a more formal, structured student debt repayment benefit, there are compelling reasons plan sponsors should care about the negative effects of student loan debt on their employees and consider taking action.

Impacts on Employees

High loan balances can delay the achievement of important financial milestones such as home ownership (23%), emergency savings (34%), and retirement savings (29%), according to a 2019 Bankrate survey. And these delays can have serious downstream effects on other areas of financial wellness. When it comes to planning for retirement, student loan payments can keep employees on the sidelines — missing out on valuable early years of compounding returns.

Student loans are also a significant contributor to worker stress, which can lead to mental and physical health issues as well as absenteeism. According to Kiplinger's 2020 Retirement Survey Sponsored by Personal Capital, respondents ages 40 to 74 reported a number of negative health effects due to financial stress, including increased anxiety (35.9%), sleep loss (27.4%), weight gain or loss (21.6%), depressive thoughts (20.1%) and chronic illness (5.5%).

Mutual Benefits

Providing assistance with student loan debt can help address many such issues. But the benefits aren't limited to employees — they can also extend to the organizations that employ them. Offering a student loan repayment benefit may help afford employers an opportunity to stand out, attract top talent and boost their bottom line.

Set Yourself Apart

As this is a relatively uncommon benefit, student loan assistance can help employers differentiate themselves in a tough labor market. And it could particularly assist companies struggling to hire in sectors harder hit during the pandemic such as health care, leisure, hospitality and travel.

Increase Productivity

It's hard to stay engaged and focused on the job when you're having a tough time managing student debt. So, organizations that can help their employees successfully navigate this stressful situation may enjoy improved worker productivity and overall job satisfaction — and the myriad benefits that come with them.

Protect Your Bottom Line

Excessive student loan obligations can siphon off would-be retirement plan contributions and hinder employees' retirement readiness. And that could lead to delayed retirement, which can increase health care costs for sponsors and result in higher turnover due to "promotion blockage."

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Attract the Right Candidates.
Student loan repayment benefits offer a potentially outsized advantage for specific subsets of employers. For example, those with workforces with a large percentage of recent grads, older millennials, Gen Xers and employees with post-secondary education (e.g., tech, financial services companies) may want to prioritize offering a student loan benefit.

Why Act Now?
While the legislative fate of SECURE 2.0 and RISE could broaden the range of options for sponsors, employers should consider focusing on this issue in the near term, nonetheless. Student loans are about to become a bigger problem for employees as the moratorium on student debt repayment is set to expire on August 31, 2022.

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