Fidelity Benefits Consulting

Student Debt

A huge burden that may be weighing down your workforce.

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You may think that student loan debt is a problem that affects only younger workers, but the impact is felt across all age groups and employee populations. Offering a student debt repayment program will help your employees pay off debt faster and give your organization an edge in the battle for talent. We offer a framework for evaluating the merits of adding a student debt program to your benefits menu.

What's Inside

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- Could a student debt program be a win/win for you and your employees?
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Fidelity INVESTMENTS

Is it time to consider a student debt program for your organization?

As our country continues to grapple with the rising cost of higher education, corporations are expressing increased interest in helping employees cope with their student debt. Student debt repayment programs are emerging as a new benefit trend, helping employers stand out in the crowd for recruits and employees who are struggling to reduce their debt burden.

Why all the interest? Because employers are recognizing that their workers are drowning in student loans. As of mid-2017, Americans owed more than $1.4 trillion in student loan debt, more than two and a half times what they owed a decade earlier.[1] In a Fidelity survey, 79% of retirement plan participants reported that student loans interfered with efforts to save for retirement.[2]

Key Takeaways

Financial stress from student loan debt is a fact of life for many employees, younger and older.

A student loan debt program could be a key benefit offering that helps you attract and retain valued workers.

Fidelity can help you analyze, design and administer a cost-effective program.

Snapshot: Who carries student debt?

In the United States, the average graduate is burdened with $37,000 dollars of student debt,[3] but there is more to the story. Adults of many ages are struggling to shed the burden of paying for a college education. No matter what the average age of your population is, chances are many of your employees are experiencing student debt stress.

Younger employees are struggling

But 86% of young workers would commit to their employer for 5 years if they helped pay off their student loans.[4]

- 7 in 10 college graduates have student loan debt.[5]
- About 4 in 10 adults under age 30 have student loan debt. Those with bachelor's degrees owe a median of $25,000, while those with a postgraduate degree owe a median of $45,000.[6]
- Young college graduates with student loans are more likely to have a second job and to report that they are struggling financially. About one-in-five adults ages 25 to 39 with at least a bachelor's degree and outstanding student loans have more than one job.[6]

Implication? If your younger employees are financially stressed, they may struggle with productivity (especially if they are moonlighting) and with prioritizing saving for life and the future.

Older employees are feeling the pain too

Some of those borrowers carried their own student debt later into life, but the majority took out or cosigned loans to help pay for their children's or grandchildren's college degrees.[7]

- Americans 60 and older owed a total $66.7 billion in student loan debt in 2015, with an average debt load of about $23,500 — almost double the average in 2005.[7]
- A Fidelity study revealed that pre-retirees averaging 56 years old reported $57,000 in outstanding student debt. Based on Fidelity's models, those pre-retirees would not be ready to retire at age 65.[8]
- Older borrowers with outstanding student loans are more likely to report that they have skipped necessary health care needs such as prescriptions and doctor visits.[7]

Implication? Older borrowers may experience heightened stress and health issues, and can struggle to catch up on saving for retirement that may be right around the corner for them.

Could a student debt program be a win/win for you and your employees?

The far-reaching impact of student debt on your employees is worrisome on many levels. At the top of the list of concerns is that it can lead to employees, at their most critical ages, having less in emergency and retirement savings.

As an employer, when you help your employees reduce student loan debt stress, your organization may reap key benefits such as:

- Higher employee retention, particularly during the debt payoff period.
- Lower stress-related health costs.
- Higher employee productivity and loyalty.
- Renewed ability for employees to devote precious money and energy to high priority financial goals, like saving for retirement, establishing emergency funds and reducing other debt.
- An enhanced reputation as an organization genuinely committed to employee wellbeing, one seen as forward thinking, helping improve recruitment efforts. While only 4% of companies offer student loan repayment as a benefit, the number is expected to surge to 20% in the near future, according to industry consultants.[9]

How can you fund a student debt repayment program?

As with any employee benefit, your organization must consider what investment you can make to add and support it. Return on investment will be based on various factors such as the positive impacts on recruitment, retention and productivity, and reduced employee financial stress. Some employers have considered various changes to support this benefit, whether they include committing dollars or finding budget-neutral sources of funding.

Consider budget-neutral funding sources

Funding Alternative	Consideration
1. Direct certain forms of compensation to debt repayments	Consider shifting incentive dollars, signing bonuses, commissions, overtime, PTO payments or shift differentials to this program.
2. Direct dollars from ancillary benefits	Computer allowances, fitness perks, transportation, financial wellness points all may be on the list of considerations to support this program.
3. Modifying or eliminating other programs	Consider modifying tuition reimbursement programs to better align spend, or eliminating or modifying underutilized wellbeing programs.
4. Tweaking profit sharing or healthcare spend	Consider tweaking spend on certain programs, bearing in mind any ERISA or tax implications.

A student debt repayment program is a differentiator, an up-and-coming benefit that may strengthen your position as an employer of choice.

It can take surprisingly few dollars to make a difference

The impact of your organization's contributions on an employee's loan burden can be significant when interest is factored in. By attacking the loan's principal more effectively, your employees can save substantially on interest payments, maximizing the value of your contribution.

These three employees have the same amount of student loan debt of $20,000.

		Monthly Payment	Years needed to pay off the debt	Total $ paid on the debt	Total employer contribution	Savings over the loan's lifetime
	This employee has no student debt benefit offered at work.	$177	15	$32,800	$0	$0
	This employee's student debt benefit is $50 monthly, paid directly to the loan principal.	$227 ($177 + $50 from their employer)	10	$28,200	$6,000	$10,600
	This employee's student debt benefit is $100 monthly, paid directly to the loan principal.	$277 ($177 + $100 from their employer)	7.75	$26,000	$9,300	$16,100

A student debt repayment benefit could be an important addition to your wellbeing programs, supporting employees' efforts to stay financially, physically and mentally healthy.

Key considerations for program design

While student debt repayment is relatively new, certain design trends are emerging. Key elements and main cost drivers are eligibility, usage and benefit level.

	Eligibility	Funding
Key Decision Elements	• Job Level • Tenure • Job Type • Full Time or Part-time • Employee or Dependent	• Contribution Amount • Frequency of Payment • Contribution Cap • Service Commitments
Additional Considerations	• Performance History • Leaves of Absences • Promotions / Rehires	• Tax implications • Pay toward principal

Fidelity's own student debt program

Plan Design

$167 monthly employer contribution
(per eligible employee)

$10K lifetime benefit cap

Impact

8,900 lifetime enrollment

$22.5 MILLION in principal and interest savings for Fidelity employees[10]

34,625 years of loan payments shaved off[10]

How Fidelity can help

We know that companies have many considerations when adding a new benefit and may face some hurdles such as cost, complexity and timing. Fidelity has been at the forefront of addressing the impact of student debt on employees and employers, including administering our own program, and with resources such as the Student Debt tool, employer student debt repayment and emerging college planning services.

From the first steps of evaluating what you already offer, and how your programs align with your priorities and those of your workforce and viable, budget-neutral funding strategies, Fidelity Benefits Consulting can guide you through the process using our real-world insights and experience.

For more information, contact:

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[1] Cilluffo, Anthony, "5 Facts About Student Loans," Pew Research Center, August 24, 2017
[2] Fidelity Workplace Investing Participant Panel survey; 2,491 members with 496 responses, as of November 1, 2016.
[3] Students & Debt, Debt.org, 2018
[4] American Student Assistance Young Workers and Student Debt Survey by Regina Corso Consulting. N=502 young workers between the ages of 22 and 33, January 2017.
[5] Nova, Annie, "Hundreds of companies are now paying off their employees' student loans," CNBC, May 19,
[6] Cilluffo, Anthony, "5 Facts About Student Loans," Pew Research Center, August 24, 2017
[7] Mulhere, Kaitlin, "Age 60, Nearing Retirement ... and Still Stuck With Student Debt," Time, January 5, 2017
[8] Fidelity Investments, January, 2018, Fidelity's Student Debt Tool (n=22,579). Based on pre-retirees with student debt.
[9] "Perspectives: Employers explore student loan assistance strategies," Willis Towers Watson, May 23, 2016
[10] Cumulative savings based on Fidelity contributions as of December 31, 2017, plus future interest.