

Part 1 of 3



Repay Now Or Save For Later

The Balancing Act Of Repaying Student Loans And Saving For Retirement

Student loan debt: The multigenerational effects on relationships and retirement is a 3-part research series sponsored by TIAA and conducted by the MIT AgeLab. Part 1 focuses on the impact student loan debt has on longevity planning.

This study reveals insights into how student loans and retirement planning are interconnected, and offers actionable implications for borrowers, their families, and financial professionals.

Background

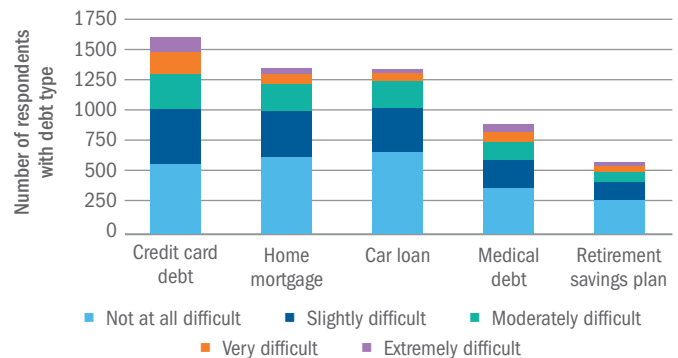
Outstanding student debt among borrowers in the United States is nearly \$1.5 trillion.¹ While the vast majority of student loan borrowers are in their twenties and thirties, the burden of student loan debt affects a growing number of older adults and continues into later stages of life for a growing number of Americans.² To date, little research has examined how student loans impact the financial situation of people in later stages of life, especially those who soon will be or have already retired. This is a particularly salient issue given that 50% of the U.S. population is projected to be financially vulnerable during retirement.³ Previous research has demonstrated that general debt accrual influences the timing of retirement and financial vitality throughout retirement,⁴ but a greater focus on student loan debt in particular is critical to better understand and prevent widespread financial risks for older adults.

Impact of student debt on retirement

Borrowers often have a variety of financial commitments that compound the pressures of saving for retirement.

Financial commitments vary for borrowers of different ages, but national survey respondents across all age groups most often reported managing credit card debt,

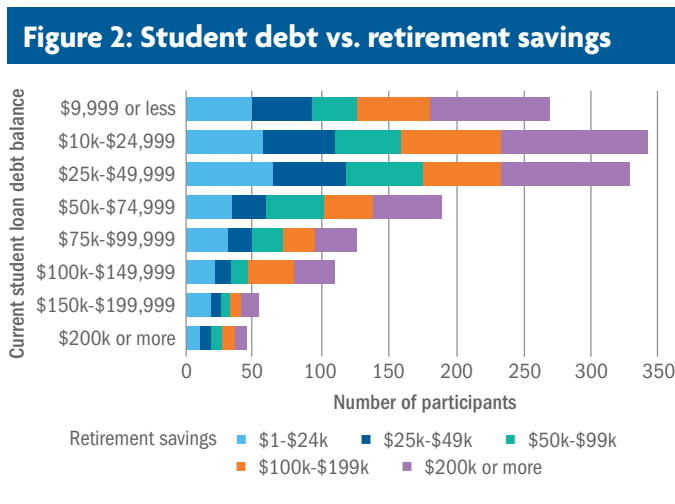
Figure 1: Difficulty repaying other debt types



Part 1: Repay Now Or Save For Later

home mortgages and car loans in addition to their student loans. When asked about the level of difficulty they experienced repaying other types of debt, respondents reported the most difficulty repaying credit card debt, followed by medical debt and home mortgages.

Student loans augment these financial challenges and ultimately hinder saving for retirement; the vast majority of participants (84%) reported that student loans negatively impact the amount they save for retirement. Participants with higher current student loan debt balances tended to possess less retirement savings.



Repaying student loans constricts retirement savings.

While the majority of participants (81%) contribute to retirement savings regularly, many (73%) expected to begin or increase their retirement contributions once their student loans were paid off.

“If I made more money, I would put aside money manually as part of a savings thing for retirement, but up until very recently that wasn’t really doable.”

—Male focus group participant, age 28

“If my student loans weren’t draining finances, that would have been a certain amount of money I could have put away into an independent retirement account.”

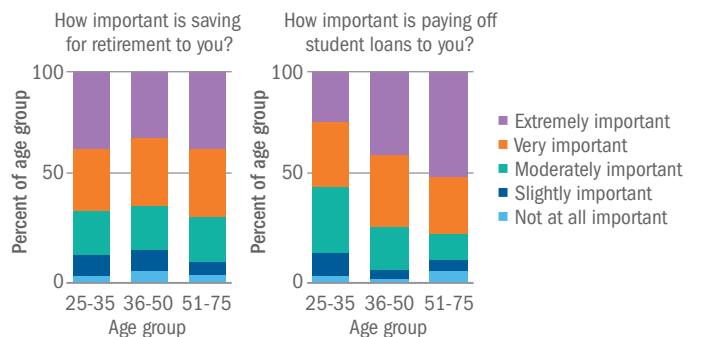
—Female focus group participant, age 59

Retirement savings amounts also varied by each borrower’s situation. Respondents who had student loans for a child or grandchild’s education (33%) were less likely to report regular retirement savings than borrowers who had loans of their own (13%) or for a spouse’s (17%) education.

Student loan payments and retirement savings: rivaling financial responsibilities.

Although most participants were not able to save as much as they would like for retirement, the vast majority of borrowers reported that saving for retirement was at least *moderately important* to them (90%), with many saying that it was *extremely important* (41%). When it comes to student loans, results were almost identical. Most borrowers also reported that paying off student debt was at least *moderately important* (88%), and 35% reported that paying off student debt was *extremely important* to them.

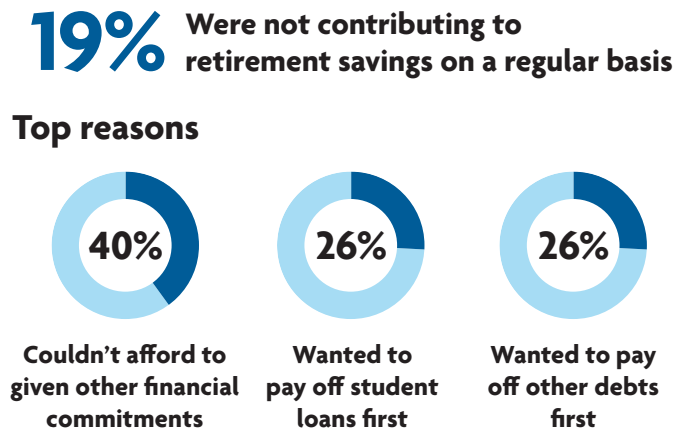
Figure 3: The importance of retirement saving vs. paying off student loans



While most borrowers were already saving for retirement, we asked non-savers why they weren't.

Primary reasons borrowers were not saving for retirement included inability to save given other financial commitments (40%), wanting to pay off student loans first (26%), and wanting to pay off other debts first (26%).

Figure 7: Borrowers' top reasons for not saving



Some reasons weighed more heavily on certain groups. For example, participants ages 25-35 (39%) and those with loans for their own education (35%) were more likely than other groups to report prioritizing student loans. This reason for not saving was especially salient for participants who reported thinking about student loans frequently in their daily lives.

“At this point, you can only point the firehose at one fire at a time.”

—Male focus group participant, age 32

Implication: For many borrowers, student loans feel like a financial roadblock. Borrowers have difficulty considering saving for retirement while student loans occupy their financial and emotional attention. Borrowers need help mapping out their financial needs, responsibilities, and assets. Changes in legislation and employer support may serve as a catalyst to encourage borrowers to start saving for their future selves in retirement.

In addition to wanting to pay off student loans first, borrowers ages 25-35 (12%) were slightly more likely than borrowers ages 36-50 (6%) and ages 51-75 (4%) to report ineligibility for their employer's retirement plan as a reason for not saving for retirement. Similarly, these younger borrowers (12%) were also more likely than those ages 36-50 (7%) and ages 51-75 (2%) to report that their employer did not match their retirement contributions.

“My kids come first. Putting that money aside for retirement was really never on the list, because you're living paycheck to paycheck, kid to kid, problems to problems, situations, things you have to buy. I'm going to be winging it.”

—Female focus group participant, age 56

Borrowers of all ages are making financial sacrifices to repay student loans. Of the parents and grandparents taking out loans for children and grandchildren, 43% say they will increase retirement savings once the student loan is paid off. Through the focus groups, women in particular described the conflict of sacrificing their own financial security in retirement for the sake of their children's education and wellbeing.

“The only future I’m really thinking about is my daughter’s. She means more than my retirement.”

—Female focus group participant, age 29

“Am I struggling? Yeah... Now it’s hitting me... My world revolved around my kids.”

—Female focus group participant, age 56

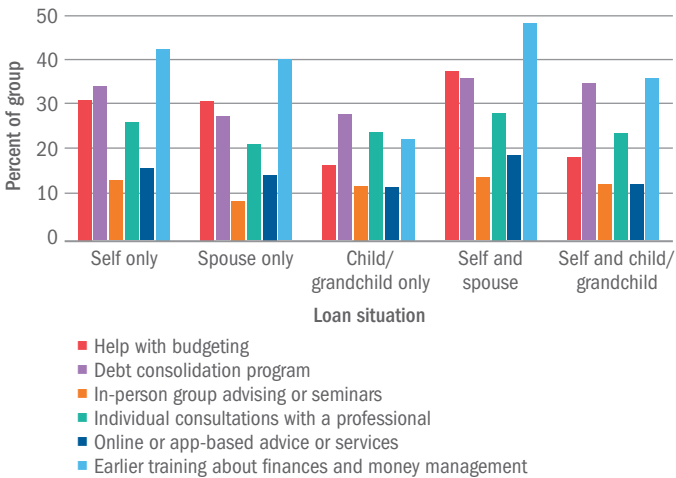
“My goals should have been set a long time ago. But then again... I have older children now, and... I’m still struggling. Retirement: I’m not sure if that’s even in my vocabulary.”

—Female focus group participant, age 62

Many women, especially mothers, expressed that balancing their own retirement with the needs of family members presented an immense financial and emotional burden, calling for more individually tailored financial strategies and discussions.

Implication: Student loans appear to have a strong impact on retirement savings for borrowers across the age spectrum. While one might assume that student loans are most salient for younger borrowers, it is important to discuss student loans and create strategies that specifically address the challenges older borrowers with loans for themselves, children, grandchildren, and spouses face in balancing student loans with other financial commitments.

Figure 8: What could help repay student loans



What do borrowers say would help them?

For most loan situations, earlier training about finances and money management was reported as the most potentially beneficial strategy for tackling student loans and current repayment. Other helpful strategies borrowers reported include debt consolidation,⁵ help with budgeting, and consultations with a financial professional. These could fill a pressing need, as participants perceived a considerable deficit in their knowledge about student loans, particularly prior to taking them out. Very few (6%) borrowers reported being *extremely knowledgeable* about student loans in general before to taking them out, whereas nearly a quarter (23%) reported being *not at all knowledgeable* about student loans. They generally believed that earlier financial education could be helpful in repaying student loans.

Implication: Embedding financial literacy education across the life course could help individuals navigate the ongoing financial challenges that arise throughout their lives. For example, although student loan obligations greatly hinder people's ability to save as much as they would like, saving for retirement remains a priority. This balancing act becomes even more complex when considering other types of debt, as well as individuals' expectations for retirement and future income. Thus, it is crucial to consider the full financial picture when developing educational programs or advising clients on financial strategies.

Financial security and student loans

Student loans impact how borrowers perceive their own financial preparedness and confidence.

Financial self-efficacy is defined as an individual's belief in their ability to successfully manage their finances and meet their financial goals, even in the face of setbacks.⁶ This research found that the more borrowers took out in student loans, the less financial self-efficacy they demonstrated and the worse they felt they were doing at saving for retirement compared to their peers. Outside of loan burden, age may also play a role in determining financial self-efficacy, as younger borrowers reported lower levels of financial self-efficacy than older borrowers. Older borrowers were also more likely to be financially literate.

Student loans negatively impact borrowers' confidence in managing their personal finances, especially when comparing themselves to peers. Low financial self-efficacy may prevent borrowers from making meaningful progress toward saving for retirement and other financial goals. Borrowers who scored higher on the financial self-efficacy measure reported greater retirement savings regardless of age, income, race, or who the loans were for.

Implication: Ensuring that borrowers are confident in their ability to navigate retirement planning while balancing other financial commitments, including student loans, may help borrowers to build a sense of financial self-efficacy, in order to spark positive financial action.

Freely discussing loans may act as a catalyst towards positive financial action.

Follow-up surveys from focus groups indicated that a number of borrowers made changes to how they think about or manage their student loans, and their general finances. At the two-month follow-up, participants most commonly reported they had or planned to create a budget (70%), checked their online bank statements (88%), set up or contributed to a retirement savings account (68%), or spoke to a family member about the loans (70%).

“The opportunity to speak with others regarding debt allowed me to put things in perspective in terms of my budget.”

—Female focus group participant, age 54

“I liked hearing about how different people had different approaches to loan debt. It made me realize I had put less emphasis on it and definitely needed to change that behavior.”

—Male focus group participant, age 29

“I left there feeling like I wasn't alone—that other people shared in my struggles and reality.”

—Female focus group participant, age 33

Improving student loan debt management

Build financial literacy:

The study reinforces the need for earlier and continuous education around student loans and finances in general. Many student loan borrowers and their families were not knowledgeable about the student loan process. Borrowers without strong financial knowledge may be unsure where to turn for advice during the student loan accrual and repayment process. Borrowers would likely benefit from earlier, continuous, and more comprehensive educational programming about student loan debt to ensure they fully understand the loan process and responsibilities prior to taking on student loans and throughout the repayment process. This could better position borrowers to manage competing financial priorities and may ultimately improve financial security across generations.

Consider the full picture:

For many student loan borrowers, retirement feels distant and uncertain. Borrowers have complex financial pressures that impact how they allocate resources and plan for the future. Financial management strategies to tackle student loan debt while simultaneously saving for retirement should be tailored to individuals' unique situations. Strategies should also consider how guaranteed lifetime income options may help borrowers more effectively allocate their retirement savings and loan repayments to help build financial confidence. Borrowers need help thinking critically about their current and future financial situation as well as understanding their expectations for the future. Taking a more comprehensive approach to planning can help ensure that attainable financial goals are developed and ultimately pursued.

Steps toward improving retirement security

Policymakers, employers, financial services companies, and educational institutions all play an important role in helping people effectively manage their student loan debt. Employers and policymakers can especially make a difference.

Employers can make it easier for employees to save while paying off their loans through innovative retirement plan design. For example some employers today offer guaranteed retirement contributions with limited or no match requirements, which allows retirement savings to grow, even if an employee isn't able to contribute. These simple designs can offer valued benefits to both employees and employers.

Policymakers can support legislation that would allow employers to make matching contributions to employees who are paying down student loans in lieu of adding to their retirement plan or maximizing their plan match. This would help employees build retirement savings even as they reduce their educational debt burdens.

Advice and coaching are key to helping people navigate competing financial demands. Individuals who engage with qualified financial professionals are generally better equipped to make decisions about paying for education for themselves or a loved one without sacrificing their future financial security.

Part 1: Repay Now or Save for Later

Learn more

Read about how student loan debt also affects family and romantic relationships in Parts 2 and 3:

Part 2: The Elephant at the Dinner Table: Family Conversations and Conflict Surrounding Student Loans

Part 3: 'Til Debt Do Us Part: Student Loan Debt and Romantic Relationships

About the MIT AgeLab

The MIT AgeLab was created in 1999 to invent new ideas and creatively translate technologies into practical solutions that improve the quality of life of older adults and those who care for them. The AgeLab applies consumer-centered systems thinking to understand the challenges and opportunities of longevity and emerging generational lifestyles to catalyze innovation across business markets.

Methodology

The MIT AgeLab conducted a two-part mixed methods study between February 2018 and April 2019. The first part consisted of small, in-person focus groups with 88 participants, in conjunction with pre-group and follow-up online questionnaires. The second part of the study involved a larger online national survey of 1874 participants. In both parts of the study, participants ranged in age from 25-75 who were currently contributing to student loan payments for their own and/or an immediate family member's higher education.



Note: Unless otherwise noted, statistics included in the text were derived from national survey data, while participant quotes were derived from focus groups.

¹ Federal Reserve Bank of New York, 2018. <https://www.newyorkfed.org/microeconomics/topics/student-debt>

² Li & Goodman, 2015. <http://www.urban.org/sites/default/files/publication/72976/2000514-Americans-Debt-Styles-by-Age-and-over-Time.pdf>

³ Munnell et al., 2018. https://crr.bc.edu/wp-content/uploads/2017/12/IB_18-1.pdf

⁴ Mann, A. (2011). The effect of late-life debt use on retirement decisions. *Social Science Research*, 40(6), 1623–37. <https://doi.org/10.1016/j.ssresearch.2011.05.004>.

⁵ Note: Borrowers should consider the implications of debt consolidation including whether consolidation could make them ineligible for certain debt-relief programs, like Public Service Loan Forgiveness.

⁶ Farrell, Fry & Risse. 2016: <https://www.sciencedirect.com/science/article/pii/S016748701500094X>

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