

Saving and Wealth Accumulation among Student Loan Borrowers: Implications for Retirement Preparedness



LISA DETTLING SARENA GOODMAN SARAH REBER

FEDERAL RESERVE BOARD*

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*The analysis and conclusions set forth are those of the authors and do not represent the view of the Federal Reserve Board or the Research Staff

Motivation



- Student loan debt increased rapidly in recent decades
 - \$1.6T outstanding; largest component of non-housing debt
- Does this have implications for recent cohorts' saving patterns, wealth accumulation, and retirement preparation?

Student loan borrowing could...



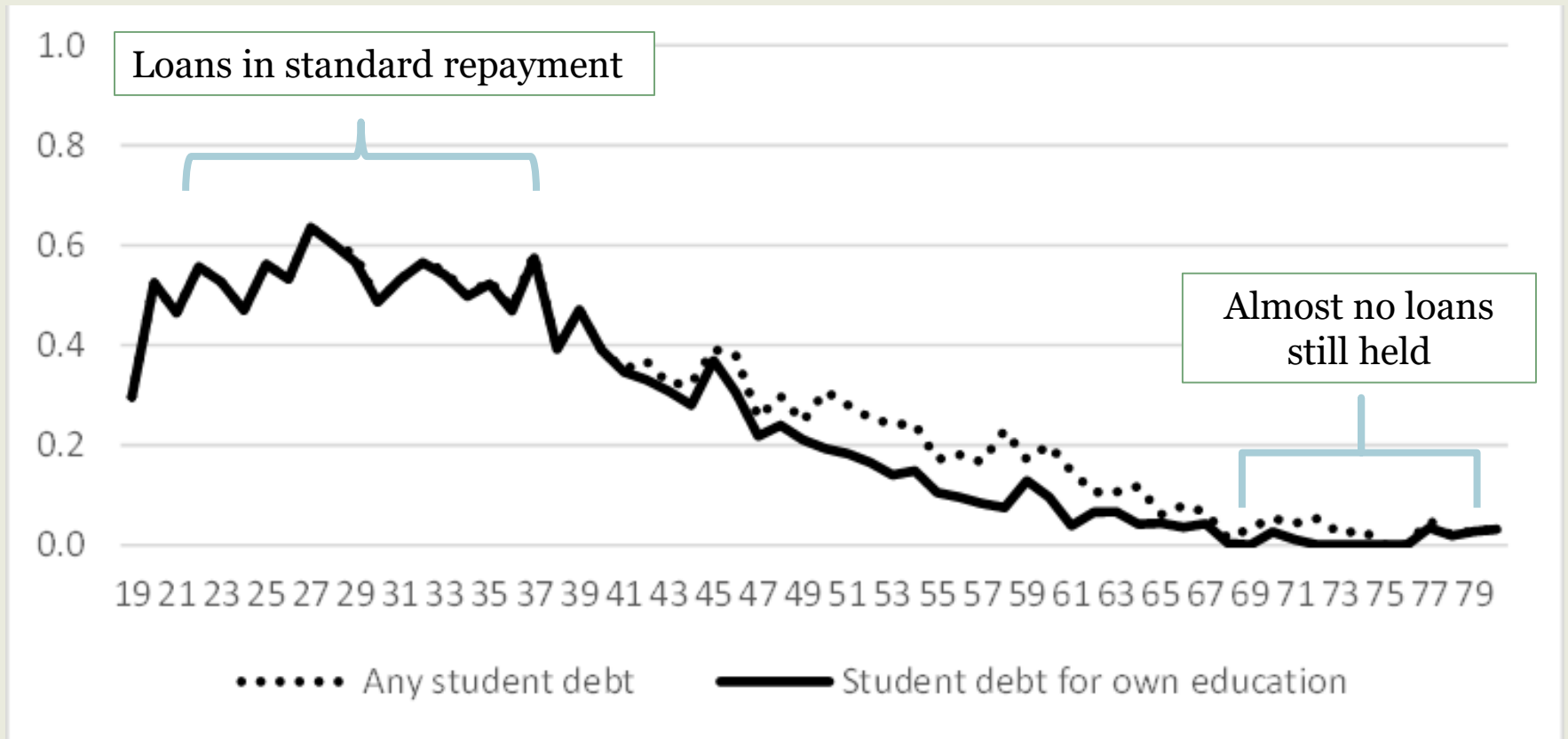
- ...increase wealth at retirement:
 - Student loans permit high-return educational investments individuals might not have otherwise made
 - ✦ On average, college grads enter retirement with more wealth
 - ✦ Expanded student loan access increases attainment, earnings and student loan repayment (Black et al, 2020)
- ...decrease wealth at retirement:
 - If returns to education < cost of debt service
 - Debt on balance sheet constrains other investments (buying a home, starting a business, contributing to retirement accounts)
 - ✦ Increased borrowing to buffer rising tuition reduces grad school enrollment (Chakrabarti et al, 2020) and homeownership (Mezza et al, 2020).
 - ✦ Student borrowers' retirement plan participation at age 30 about the same as non-borrowers, but balances are lower (Rutledge, Sanzenbacker, and Vitagliano, 2021).

Data and methods part 1



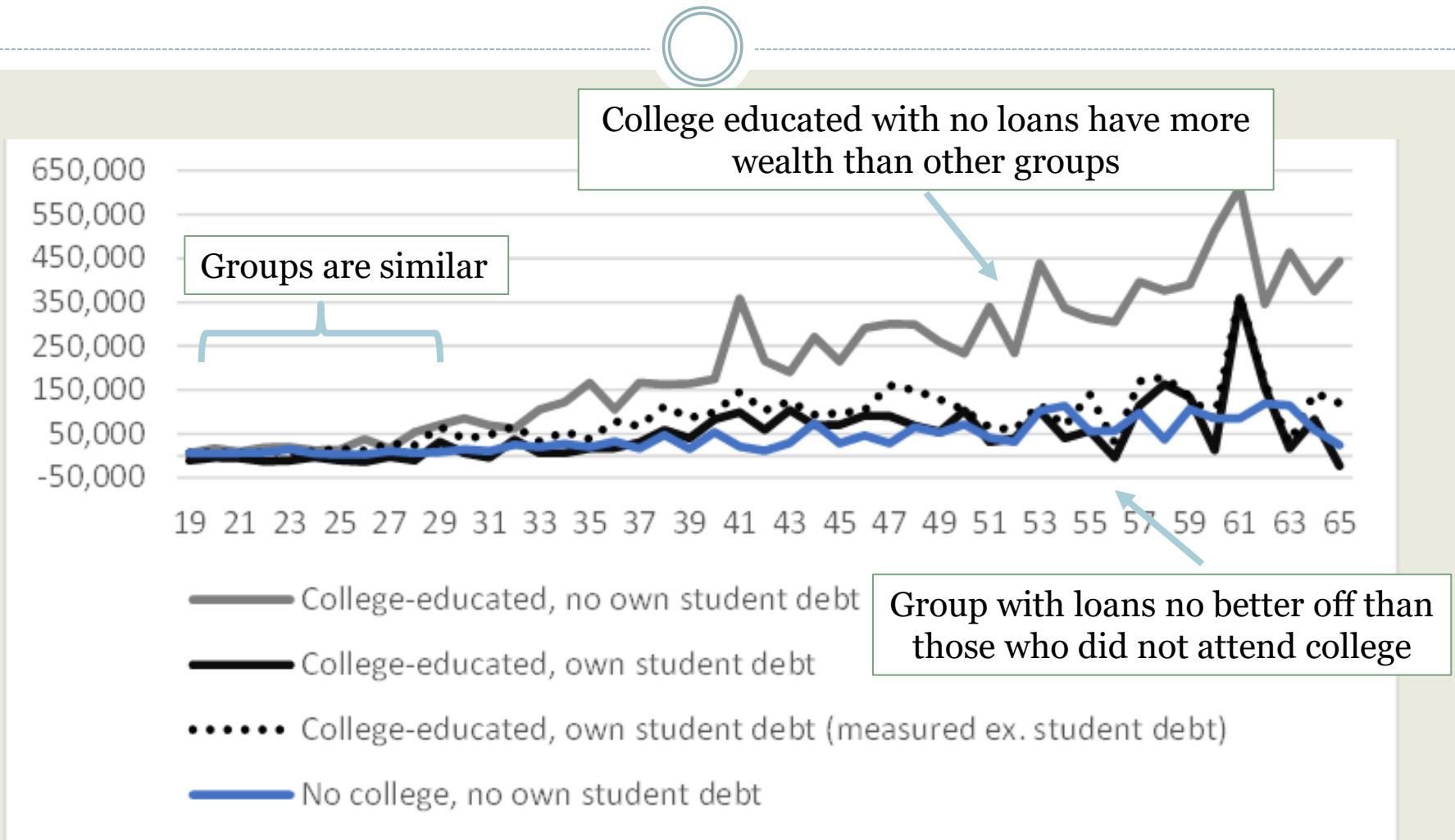
- **Survey of Consumer Finances (SCF)**
 - 2016-2019 waves – detailed info on student loans (including whose education loan was for)
 - Rich balance sheet info and retirement preparation: net worth, participation in DB/DC plans, quasi-liquid retirement wealth
- **Estimate “life-cycle” patterns:**
 - Methodology: estimate mean student debt-holding and saving/wealth accumulation by age to study life-cycle patterns
 - Groups: college educated with loans, college educated without loans, no college education
 - ✦ Part 1: groups defined by *current* student debt-holding

Student debt over the life-cycle



Percent of college educated families with student debt by age, 2016-19 SCF

Median wealth by current student debt holding



Median Net Worth by Group and Age, 2016-19 SCF

Do student loan borrowers save less?



- Naïve comparisons between those with and without loans at different ages seems to suggest *yes*
- But this doesn't account for the large majority of families who paid off their loans
 - Families who don't pay off their loans could have other factors holding back saving/loan repayment
- Need to look at families who *ever* borrowed to finance their education

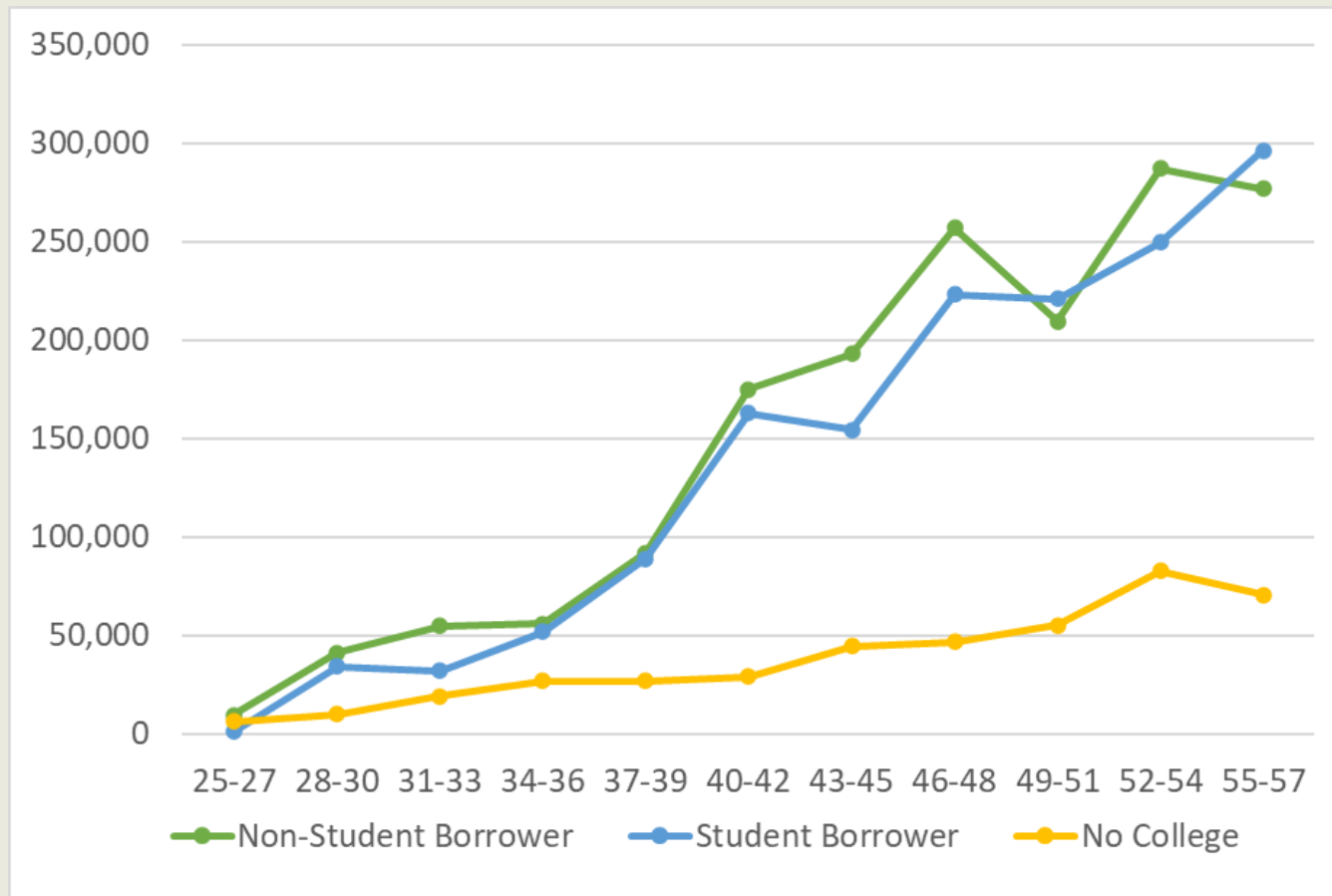
Data and methods part 2



- **Strategy 1: SCF**
 - We develop novel method to impute borrowing histories
 - ✦ Use own educ, parent SES, vet status, etc. to predict borrowing among 24-30 y.o. (debt still in standard repayment)
 - ✦ Calibrated to cohort-level student borrowing rates derived from 1989-2019 SCFs

- **Strategy 2: FRBNY Consumer Credit Panel/Equifax**
 - Panel data from credit reports
 - Compare individuals that opened credit records at same time, but different levels of *initial* student borrowing
 - ✦ Relies heavily on Black et al (2020) methodology
 - ✦ No information on level of education obtained
 - Presence of mortgage to infer homeownership

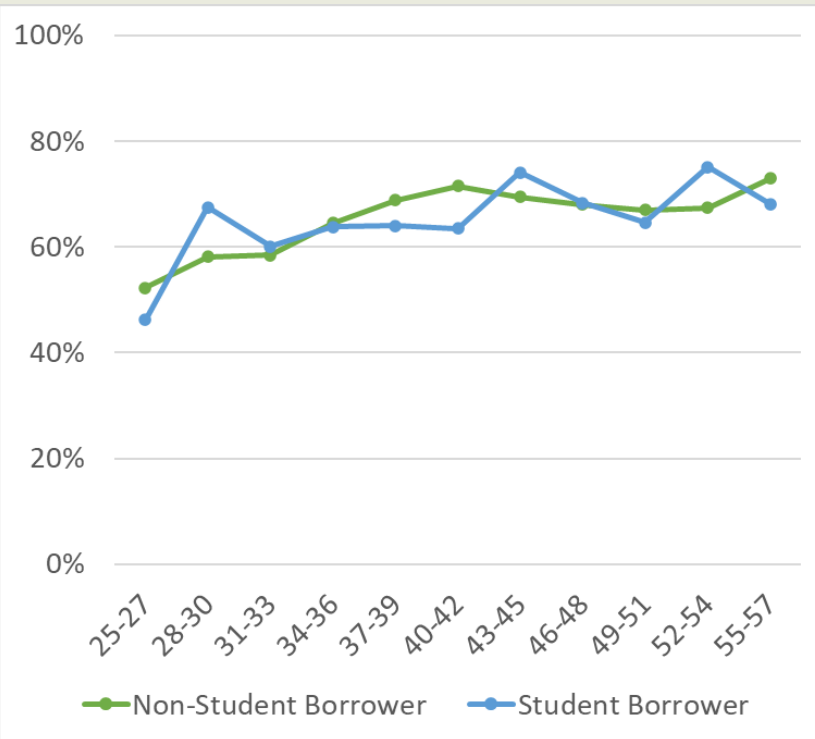
Wealth accumulation by student borrower group



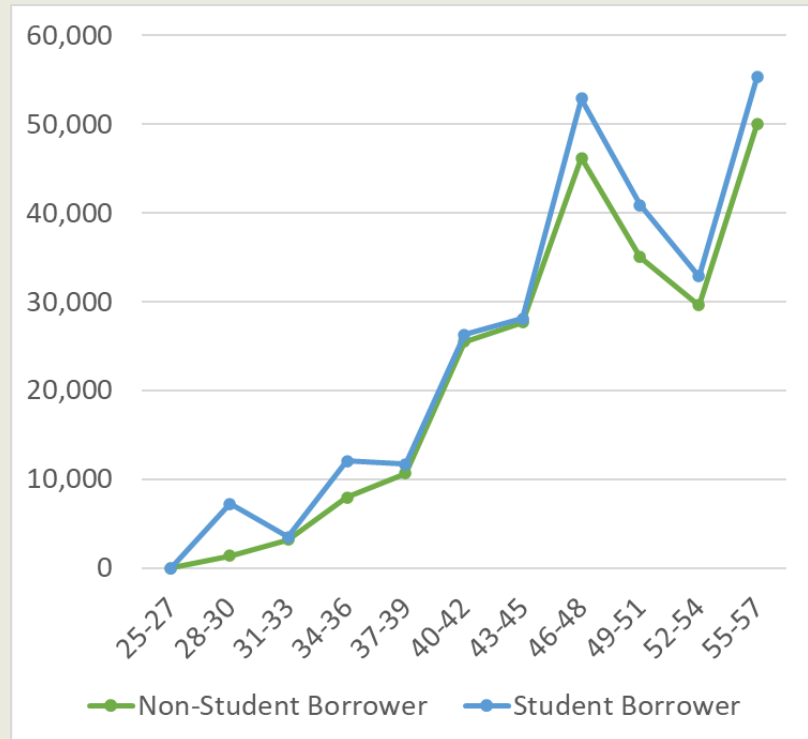
By age group and imputed student borrower status and college education, 2016-19 SCF

Retirement preparation by student borrower group

Has a DB/DC Plan

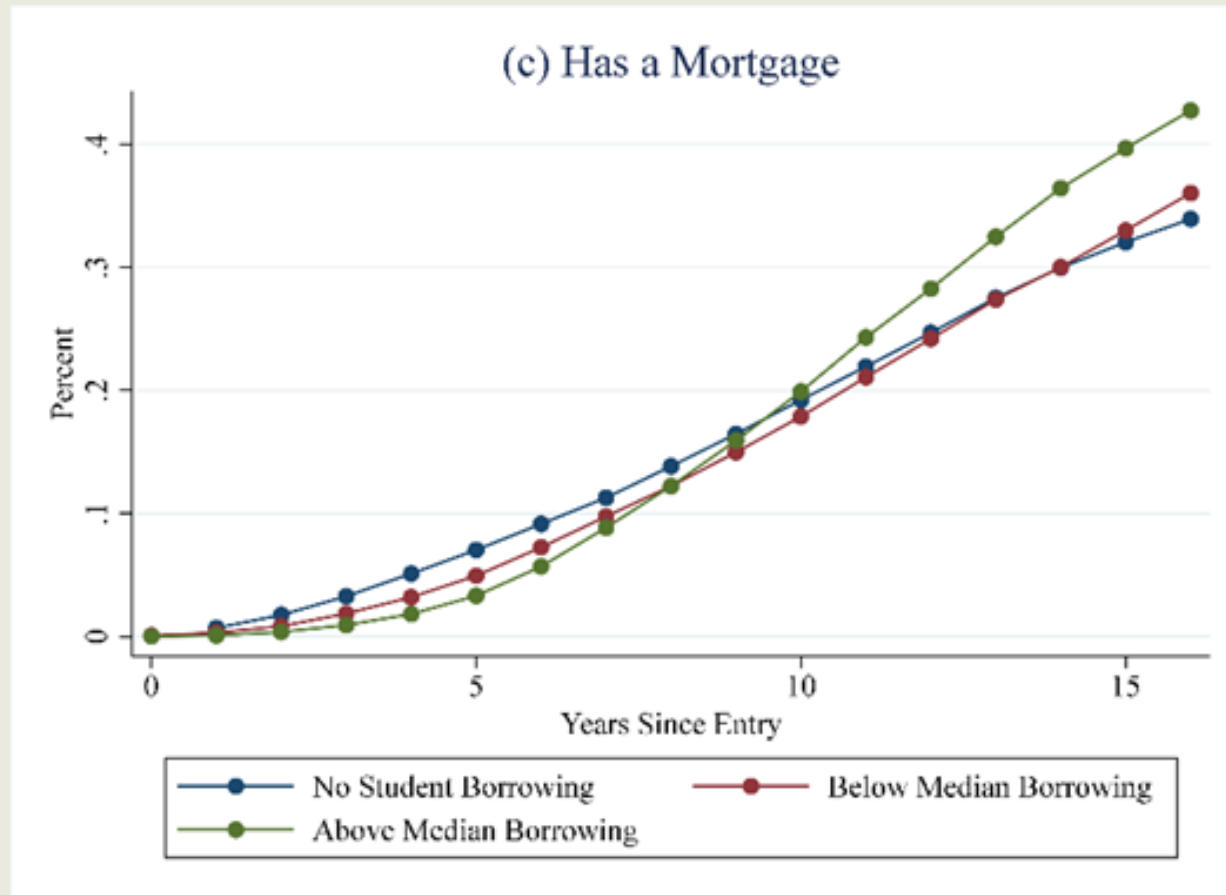


Median quasi-liquid retirement assets



By age group and imputed student borrower status, college educated families, 2016-19 SCF

Mortgage on credit report by student borrower group



By years since started credit report and initial borrowing status, 2004-2019 CCP/Equifax

Conclusion



- **Very few families continue to hold student loans nearing retirement age**
 - Those that do look no better off than those that did not attend college at all
 - These families might benefit from targeted policy intervention
- **Naïve comparisons between families holding and not holding student loans into later ages are misleading**
 - Families who do not pay off their loans likely have other factors that contribute to both lower saving and student loan repayment
- **Our analyses suggest typical student borrower:**
 - Accumulates similar levels of wealth and is similarly prepared for retirement as their peers who attended college and did not borrow
 - Better off than their peers who did not attend college
- **Overall, expansion in student lending does not seem poised to have major implications for retirement landscape**