

Student Loan Debt



Background

Every year millions of Americans attend a college or university with the expectation of graduating prepared for the workforce. A college degree is required for many professions and workers with a college degree generally have a higher income than those without a degree. As tuition costs have increased steadily, today many Americans do not have enough money saved to cover the expense of attending college. Many students and families decide to make up the difference with student loans, 90% of which are sponsored by the federal government. Incurring student loan debt is not inherently negative, particularly if a degree leads to a higher paying job, but a significant amount of borrowers are not adequately informed before they decide to incur student loan debt and many struggle to pay back the debt.

Student loan debt is a major problem in American society today

Over 44 million Americans are currently burdened with student loan debt. These borrowers owe an average of \$37,172 and a combined total of \$1.5 Trillion in student loan debt.¹ The situation is only getting worse: by 2025, the amount of student loan debt is expected to double.² Further, student loan debt can impact individuals many years after they graduate college. Though typically associated with only millennials, student debt impacts all age groups. Fifty-nine percent of millennials have student debt, in addition to 34% of Gen-Xers and 29% of baby boomers.

Fidelity's extensive research has found that the burden of student loans is both financial and deeply emotional. Student loan debt can cause significant stress to the borrower and have an impact on their financial priorities.³ In particular, Fidelity survey participants identify student debt as a deterrent to meeting these lifetime goals:

- **Retirement:** 79% of respondents say student loans impact their ability to save for retirement, with 69% reporting that they changed their retirement plan by lowering or stopping their contributions or by taking loans or hardship withdrawals. On average, participants with student debt contribute 6% less to their retirement accounts than individuals without student debt.³
- **House and Home:** 66% say loans impact their ability to save for a home or pay for day-to-day items.³
- **Life Choices:** 49% say student loans impact their ability to plan for life events, such as getting married or having a child.³

¹ "Student Debt Hero, A Look at the Shocking Student Debt Statistics for 2018, May 1, 2018.

² "Congressional Budget Office data

³ "Workplace Investing Plan Participant Student Loan 2016 Study, responses from 496 members (10/27/16 – 11/7/16)



Policymakers can help relieve the burden of student loan debt

Policymakers, industry experts, and academics have developed proposals to address the growing problem of student debt. In general policy proposals aim to address high interest rates, incentivize employers to offer student loan benefits, and help ease student loan debt servicing.

Fidelity supports both state and federal efforts to reduce the burden on individuals paying their student debt. We believe policymakers can institute policies that will curtail this growing problem. In particular, Fidelity supports tax incentives for employers to offer student loan repayment benefits in addition to incentives for employees making payments towards their loan debt. Tax incentives would encourage more employers to offer a student loan repayment program. These programs provide needed assistance to employees who otherwise pay their student debt instead of saving for retirement or other needs. Research shows that providing a student loan assistance option to potential candidates is a powerful tool when encouraging talent to join a company. Fidelity feels strongly that employees should not be forced to choose between paying student loans and saving for retirement.

Fidelity supports proposals like the Employer Participation in Repayment Act (H.R. 1043/S. 460).

The bill would expand the tax exclusion for employer-provided educational assistance to include an employer's payments to an employee or lender for the principal or interest on any qualified education loan incurred by an employee. We recently conducted a survey of our customers which found broad support for the bill. Sixty-nine percent of surveyed Fidelity customers favor H.R. 1043/S. 460, with the number rising to 86% among customers who have student debt.⁴

In addition to tax incentives, Fidelity supports efforts to make student loan debt easier to understand and less of a burden on today's workforce. We feel strongly that borrowers need to be educated about student loan debt, options to pay it down, and how best to frame it in the context of other competing financial priorities. Borrowers need an open and accessible repayment and refinancing process.

Fidelity tackles student loan debt

For several years, Fidelity has been conducting nationwide surveys, having conversations with hundreds of borrowers, building products, and sharing our experiences and insights with policymakers. Fidelity is focused on developing solutions for our associates and our workplace clients' employees to address student loan debt concerns.

For our employees, in 2016, Fidelity implemented the Step Ahead Student Loan Assistance Program. The program provides eligible Fidelity employees up to \$10,000 towards their student loans to ease the burden of student debt stress. More than 10,000 employees have received a benefit with \$55 million saved in principal and interest, with an average savings of \$5,500 per person.⁵

⁴ "Fidelity Business Consulting, "Customer Views on Public Policy Issues, 2018.

⁵ Cumulative savings based on Fidelity contributions as of December 31, 2018, plus future interest.



Looking beyond our own employees, Fidelity has also developed several products to help student loan borrowers:

- **The Student Debt Employer Contribution Program** allows employers to make after-tax contributions towards participants' loans with Fidelity administering and fulfilling the payments. The program gives employers a competitive advantage designed to enhance employee retention and productivity.
- A **Student Debt Tool** helps individuals see all their student loans in one place and shows the most effective options available for repayment.
- **Pre-college planning and guidance resources** for families to address the issue of taking on too much debt, by offering targeted education and resources to help families plan, save and pay for college.

What's Next

Fidelity continues to engage with policymakers to explore student loan debt issues and to actively share our insights to ensure policies map to the greatest needs workers face today. We have shared with policymakers the benefits of an open and accessible repayment and refinancing process, lessons we learned from our own tools. We urge conversations between policymakers and private industry to share insights and encourage innovation that will ultimately reduce the burden of student debt.

We will continue to develop products and advocate for policy changes that will benefit those burdened with student loan debt. Learn more about Fidelity's policy and advocacy efforts at <https://www.fidelity.com/about-fidelity/public-policy>

###

Fidelity Brokerage Services LLC, Member NYSE, SIPC 900 Salem Street, Smithfield, RI 029178

870278.1.2

