

# POINT OF VIEW

## STUDENT DEBT

### OVERVIEW

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, many Americans do not have enough money saved to cover the expense of attending college. These students and families decide to make up the difference with student loans, the majority 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 number 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 U.S SOCIETY TODAY

Over 48 million Americans are currently burdened with student loan debt and owe a combined total of \$1.75 Trillion.<sup>1</sup> Student loan debt can impact individuals many years after they graduate college. Though typically associated with only millennials, student debt impacts all age groups. 59% of millennials have student debt, in addition to 34% of Gen-Xers and 29% of baby boomers. Perhaps surprisingly, Fidelity data found that Baby

Boomers with student debt have the highest average loan balances and monthly payments, in part due to Parents Plus loans secured for their children.<sup>2</sup>

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.<sup>3</sup> 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.<sup>3</sup> Additionally, 34% of Fidelity student debt report contributing between 0-5% of their salary to their 401(k).<sup>2</sup>
- ▶ **House and Home:** 66% say student loans impact their ability to save for a home or pay for day-to-day items.<sup>3</sup>
- ▶ **Life Choices:** 49% say student loans impact their ability to plan for life events, such as getting married or having a child.<sup>3</sup>

1 Student Debt Hero, A Look at the Shocking Student Loan Debt Statistics for 2022. July 29, 2022

2 Fidelity Investments Student Debt Tool as of September 30, 2021.

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. 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 encourage more employers to offer a student loan repayment program, which provide needed assistance to employees who otherwise may pay their student debt instead of saving for retirement or other needs. Fidelity feels strongly that employees should not be forced to choose between paying student loans and saving for retirement.

## FIDELITY SUPPORTS THE FOLLOWING PROPOSALS:

- ▶ **Securing a Strong Retirement Act (SECURE 2.0).** The bill treats student loan payments as elective deferrals for the purposes of matching contributions to a retirement plan.
- ▶ **The CARES Act**, signed into law in April 2020, included a provision allowing employers to contribute up to \$5,250 tax-free to an employee's student loans each year, meaning the money paid is considered tax-free to both employee and employer. The provision has been extended until December 31, 2025 and we encourage policymakers to make it permanent.
- ▶ **Finally, 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 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 now provides eligible Fidelity employees up to \$15,000 towards their student loans to ease the burden of student debt stress. To date, 15,000 employees have received a benefit with \$67 million saved in principal, plus about \$31 million in interest payments.<sup>4</sup>

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. The benefit is offered by hundreds of employers to their employees helping thousands of enrolled participants alleviate their student debt.
- ▶ **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 address the greatest needs workers face today. 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>

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Fidelity Brokerage Services LLC, Member NYSE, SIPC  
900 Salem Street, Smithfield, RI 029178  
870278.2.2

<sup>4</sup> Cumulative savings based on Fidelity contributions as of December 31, 2021, plus future interest.