TIAA

TIAA and MIT AgeLab

Student Loan Debt: The Multigenerational Effects on Relationships and Retirement

Executive Summary

July 2019

About This Study

Over 44 million people in the United States carry student loans for themselves or a family member with outstanding debt among borrowers estimated at nearly $1.5 trillion.[1] This debt impacts families across all life stages, including a growing number of older adults. Twenty percent (20%) of the total balance of student loans today is held by Americans age 50 and older who soon will be—or have already—retired.[2]

While research has analyzed the impact of student loan debt on individuals and families, this year-long study, sponsored by TIAA and conducted by the MIT AgeLab, explores the intersection of student loan debt, longevity planning and family dynamics.

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 1,874 participants. For parts of the analysis, a subset of the national survey sample was used.

In both parts of the study, participants ranged in age from 25-75, and were currently contributing to student loan payments for their own and/or an immediate family member's higher education.

Sources:
[1] Consumer Finance Protection Bureau, 2017 (Consumer Finance Protection Bureau, 2017 https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_consumer-response-annual-report_2017.pdf)
[2] Federal Reserve Bank of New York, 2018 https://www.newyorkfed.org/microeconomics/topics/student-debt
Federal Reserve Bank of New York, 2019 https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/hhdc_2019q1.pdf

The Balancing Act of Repaying Student Loans and Saving for Retirement

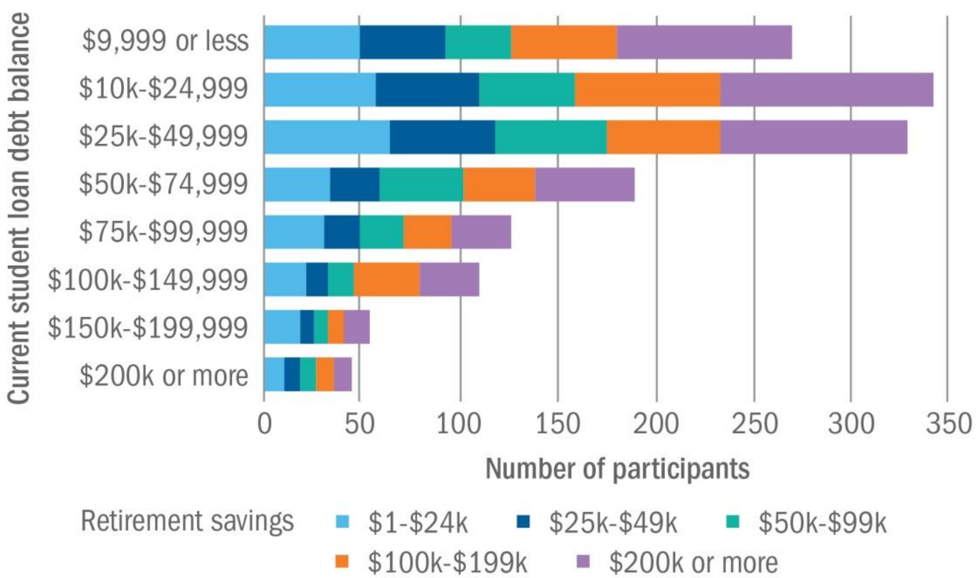
Those surveyed with student loans (84 percent) say their debt is negatively affecting the amount they are saving for retirement. Among those who are currently not saving at all for retirement, one-in-four say it is because of their student loan debt.

Three-quarters of survey participants (73 percent) say they expect to begin or increase their retirement contributions once their student loans are paid off. Study participants with higher current student loan debt balances tend to possess less retirement savings.

84% of borrowers say student loans negatively impact the amount they save for retirement.

This trend is multigenerational and apparent across life stages, with caregivers being some of the hardest hit. Among parents and grandparents taking out loans for children and grandchildren, only 67 percent say they regularly save for retirement, compared to 87 percent of individual borrowers and 83 percent of those who borrowed for a spouse.

Student debt vs. retirement savings



The Balancing Act of Repaying Student Loans and Saving for Retirement

The higher the debt, the lower the confidence level

The study also found that the more borrowers take out in student loans, the less confidence—or financial self-efficacy—they demonstrate, and the worse they feel about saving for their retirement compared to their peers.

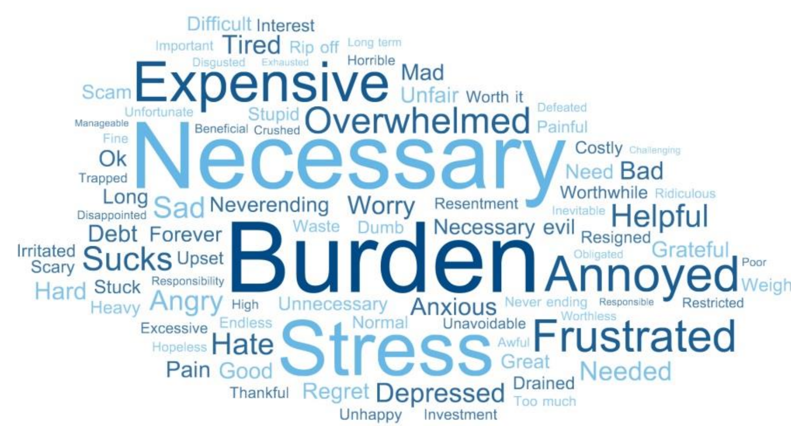
When asked which words focus group participants most associate with student loan debt and retirement, participants most frequently described student loan debt as a *burden* and retirement as *important*. This suggests that while saving for retirement may feel obligatory, repaying student loans is viewed more negatively in general and can feel like a financial roadblock. Borrowers may have difficulty considering saving for retirement while student loans occupy their financial and emotional attention.

"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

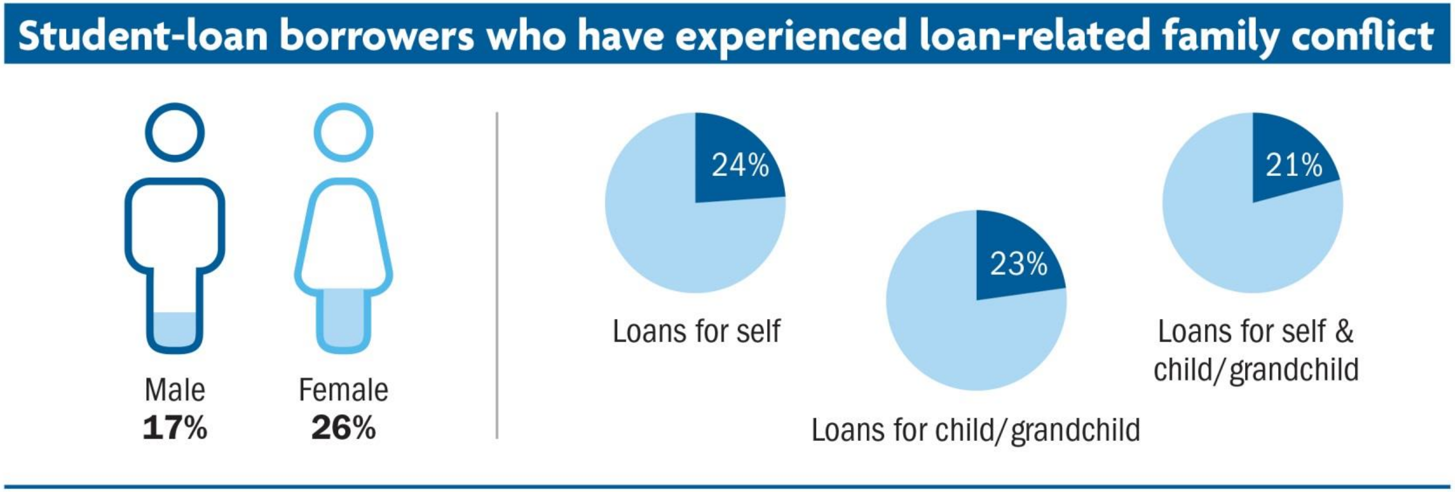
Feelings about saving for retirement

Feelings about student loan debt



Family Conversations and Conflict Surrounding Student Loans

Student loan debt is often a taboo or nonexistent topic of family conversation and can also be associated with tension in families. Nearly one quarter of all borrowers (23 percent) report that student loans have led to conflict within their families. These reports are consistent across age groups, regardless of whether the loan was held by an individual or a caregiver for a dependent.

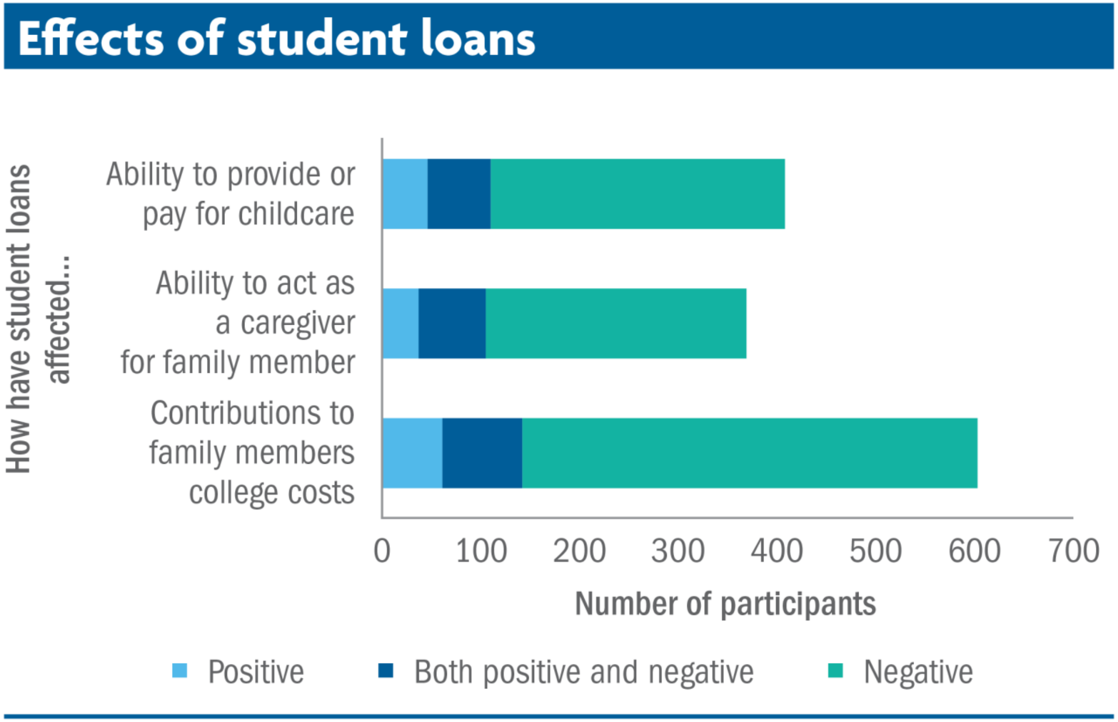


Family Conversations and Conflict Surrounding Student Loans

Financial repercussions within families

Many borrowers are required to decide how to prioritize student loan payments with other competing family financial commitments. For example, 21 percent of student loan borrowers with children report that student loans have or have had a negative effect on their ability to provide or pay for childcare.

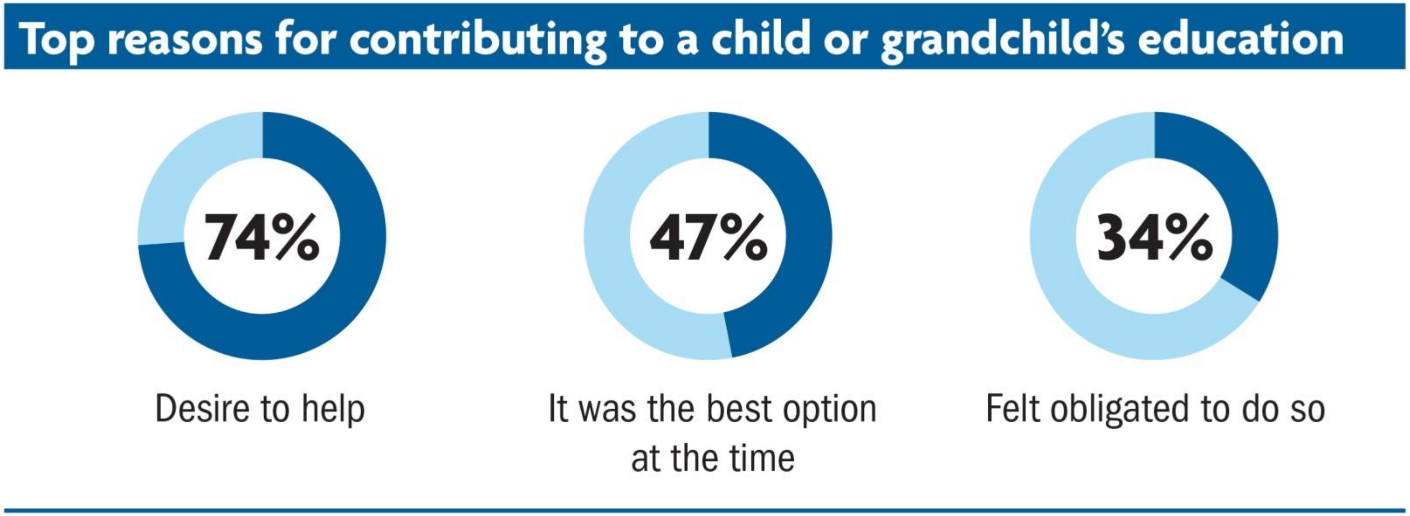
Among all borrowers, 28 percent report that loans have had a negative impact on the amount they were or are able to contribute to college costs for other family members, and 16 percent say that student loans have affected their ability to act as a caregiver for aging and/or disabled family members.



Family dynamics driving student loan activities

The study also looked at the drivers of the decision to take out student loans. Borrowers who were asked why they took on student loan debt for children or grandchildren primarily did so out of a desire to help (74 percent), with just under half feeling it was the best option (47 percent) and one-third feeling obligated to do so (34 percent). One-in-four said it was both desire to help and a feeling of obligation (24 percent).

Among individual borrowers who took out loans for themselves, those who reported that their parents were divorced or separated at the time of the loan decision (73 percent) were more likely than other individual borrowers (65 percent) to report feeling like loans were their only option to fund their education. Similarly, 80 percent of borrowers with a single parent at the time of loan accrual felt student loans were their only option.



Family Conversations and Conflict Surrounding Student Loans

TIAA

The need for family communication and education

Nearly half (40 percent) of individual borrowers and more than one-third (36 percent) of borrowers with loans for a dependent report never speaking with their family about their student loans. In fact, with relatively little family communication, over half of individual borrowers (51 percent) and just less than one-third (30 percent) of borrowers with loans for a dependent report that their family knew "nothing" or "very little" about their student loans.

The majority of study participants report being self-taught about managing personal finances (74 percent), with 38 percent reporting that they learned from their parents. Although family was one of the more common sources of financial advice, the majority of borrowers report that their immediate family was not knowledgeable about student loans overall.

The study reveals a significant knowledge gap among borrowers when it comes to student loans—only 6 percent of borrowers reported feeling "very knowledgeable" about what they were taking on when taking out their student loans. Nearly one-in-four (23 percent) said they were "not at all knowledgeable." Further, less than one-in-ten borrowers (7 percent) reported doing any research before deciding how much to take out in student loans.

Only 6%

of borrowers reported feeling "very knowledgeable" about what they were taking on when taking out their student loans.

"You don't necessarily understand where the money is coming from, where these grants are, what you have to pay back, what you don't."

— Male focus group participant

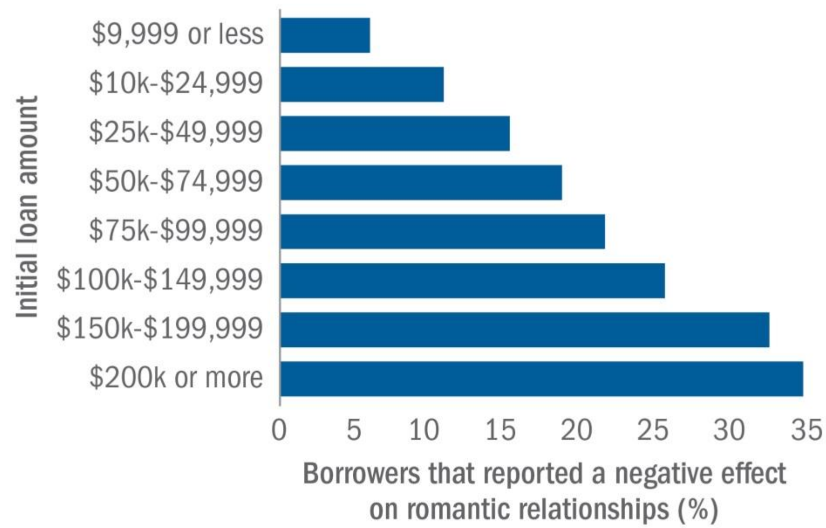
The Impacts of Student Loan Debt on Couples

As unprecedented numbers of adults accrue and repay debt for higher education, student loans play an increasingly salient role in modern romantic relationships on a day-to-day basis. While the majority of borrowers (63 percent) note that repaying their student loans has not affected their relationships with significant others, among those who do cite an impact (37 percent), the impact from student loan debt is mostly negative.

Relationship status plays a role in the perceived impact of student loan debt. Borrowers who are divorced are most likely to report that loans have negatively affected their romantic relationships (80 percent), followed by those who are single (77 percent).

The likelihood of loans affecting borrowers' romantic relationships increases with loan amounts as well. Only 6 percent of borrowers with an initial loan amount of $9,999 or less report a negative effect on romantic relationships, compared to 34 percent of borrowers with an initial loan amount of $200,000 or more.

Impact of student loans on romantic relationships



37% of borrowers say student loans have impacted their relationships with significant others.

The Impacts of Student Loan Debt on Couples

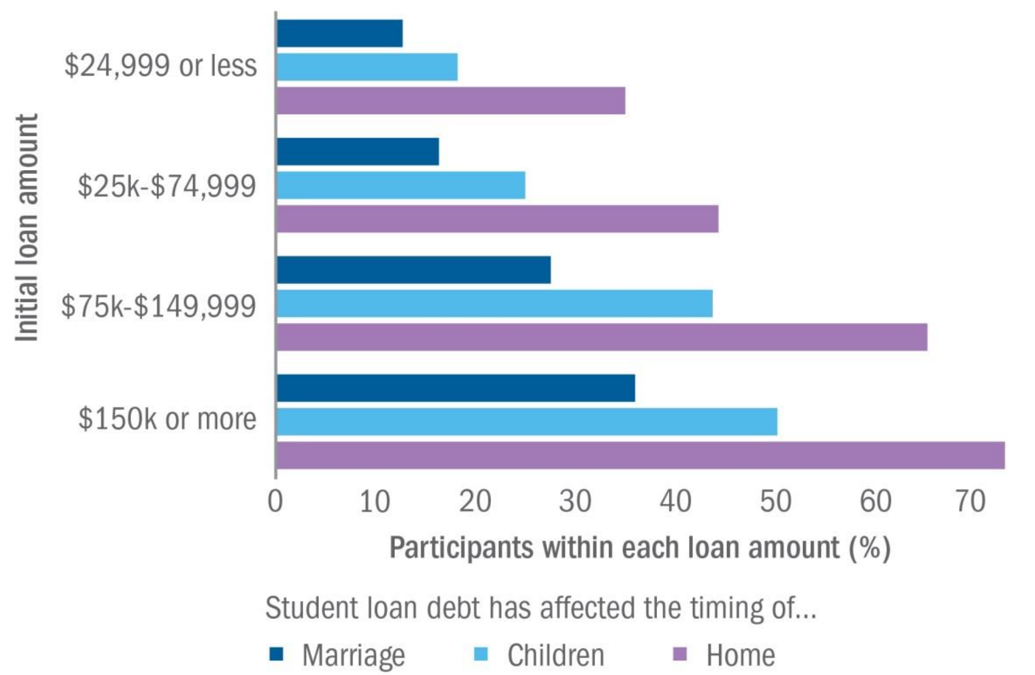
Loan-related delays for traditional milestones

The timing of major life events appear to be affected both by having student loans and by the loan amount, with greater effects seen among those with higher initial loan balances. Student loans impact when borrowers decide to marry, have children, and purchase a home, likely given the additional substantial costs.

“I want to have kids, but I want to be able to get a house before I have kids, so where does that come into play in my life? I don’t really know.”

— Female focus group participant

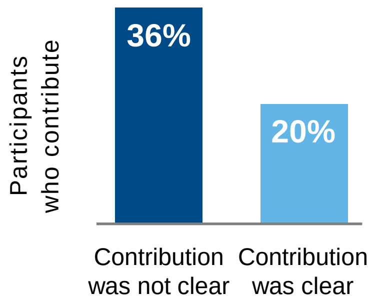
Effects on timing of life missions caused by student loans



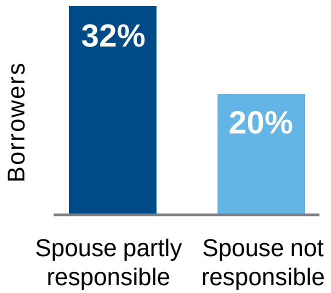
The Impacts of Student Loan Debt on Couples

Couples: Conflict and Communication

Unclear expectations and poor communication prior to repayment can spark conflict for couples.



Participants who contribute to their partner's education and who said their current contribution amount was not clear from the beginning are more likely to report conflict than those who said their contribution was clear.



Borrowers who reported that their spouse or partner was at least partly responsible for repaying their student loans were more likely to report conflict.

Couples who discuss their student loans feel more comfort, yet many borrowers report a lack of conversation with their spouse or partner about student loan debts.

- Nearly half of student loan borrowers (45 percent) cited thinking about loans, as well as discussing the loans with a partner, "once a month."
- Borrowers who are divorced or separated say they had conversations around loans even less frequently, with the majority (84 percent) discussing loan repayments with a spouse or partner once a year or less, compared to 44 percent of non-divorced loan borrowers.
- Just 17 percent of borrowers who say they are "extremely comfortable" discussing loan repayments with a spouse or partner say they have experienced conflict or friction in their families related to loans, compared to more than half (57 percent) of borrowers who are "not at all comfortable."

"When my wife and I started dating I didn't know exactly what her loans would be. Our debt wasn't a major topic of conversation until later in our relationship."

— Male focus group participant

Improving Student Loan Management

Build financial literacy

This 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 very 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 the competing financial priority of saving for retirement, and ultimately may improve financial security across the lifespan.

Consider 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 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 more effectively manage their student loan debt financially and emotionally. 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, allowing 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.

About TIAA

With an award-winning[1] track record for consistent investment performance, TIAA (TIAA.org) is the leading provider of financial services in the academic, research, medical, cultural and government fields. TIAA has $1.1 trillion in assets under management (as of 6/30/2019[2]) and offers a wide range of financial solutions, including investing, banking, advice and education, and retirement services.

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.

1. The Lipper Mixed-Assets Large Fund Award is given to the group with the lowest average decile ranking of three years' Consistent Return for eligible funds over the three-year period ended 11/30/15 (against 39 fund families), 11/30/16 (36), 11/30/17 (35) and 11/30/18 (35). Note this award pertains to mixed-assets mutual funds within the TIAA-CREF group of mutual funds; other funds distributed by Nuveen Securities were not included. From Thomson Reuters Lipper Awards, © 2019 Thomson Reuters. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited. Certain funds have fee waivers in effect. Without such waivers ratings could be lower. Past performance does not guarantee future results. For current performance, rankings and prospectuses, please visit the Research and Performance section on TIAA.org. The investment advisory services, strategies and expertise of TIAA Investments, a division of Nuveen, are provided by Teachers Advisors, LLC and TIAA-CREF Investment Management, LLC. TIAA-CREF Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, Members FINRA and SIPC, distribute securities products.

2. Based on $1,055 billion of assets under management across Nuveen Investments affiliates and TIAA investment management teams as of 6/30/19.

TIAA

TIAA.org

907918

BUILT TO PERFORM.

CREATED TO SERVE.

TIAA

BUILT TO PERFORM.

CREATED TO SERVE.