White Paper on Student Loan Debt

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Facts on Student Loan Debt

Sixty-eight percent of those graduating with a bachelor's degree in 2015 had student debt. The average amount owed per borrower was $30,100. Law school graduates from private schools average $135,000 in student debt; public school graduates average $96,000 in debt. Lastly, medical school students graduate with an astonishing median of $190,000 in student debt.

Americans owe $1.41 trillion in student loans. About 70 percent of college graduates, over 44 million Americans, have student loan debt. The average student loan borrower graduates with $37,172 in student loans, a $20,000 increase from just 13 years ago.

Women make up 56 percent of those enrolled in colleges and universities. Forty-one percent of female undergraduates took on debt in 2015-16 compared to 35 percent of their male counterparts. Upon completion of a bachelor degree, women have, on average, $2,700 more accrued student debt than men. Women also hold almost two-thirds of all student loan debt – more than $900 billion as of mid-2018.

Student loan debt made up 10.5 percent of overall household debt in 2017, more than double the 2008 level of 4.8 percent. Total student loan debt in America is higher than any other form of consumer debt aside from mortgage debt. Americans have more student loan

Recent graduates with high student loan debt are more likely than those without student debt to have lower credit scores, delay purchases of major items such as a car or house, spend less in general, and even move back in with their parents. According to one survey, over 40 percent of millennials are not saving for retirement at all.

Home ownership rates are consistently lower among graduates aged 20 to 33 with student debt compared with those with no debt. Among similar households with a college degree, those with student debt have almost $42,000 less in retirement savings than those without. The student loan problem is not just limited to recent college graduates - over 3.5 million Americans have Parent Plus loans totaling $87.5 billion.

Atlanta Fed Study

Earlier this year, the Atlanta Fed published an informative study on the tough financial decisions facing those with student loan debt. It has a great deal of useful information and statistics on the choices recent graduates are making related to their retirement planning. For example, a recent survey found that half the respondents with student loan debt are delaying contributions to their retirement accounts.

The study also outlines questions borrowers need to ask when deciding whether to save for retirement or pay off student loans. Since there is no pre-payment penalty for paying off student loans early, some decide to reduce their debt rather than putting money away for retirement. There are many factors for borrowers to consider, including whether their employer offers retirement plan contributions, whether their student loan interest rates are fixed or variable, and the tax benefits of prepaying versus investing. The study is a helpful guide on what sort of questions advisors should ask about their clients' student loan debt and retirement goals.

Complexity of Repayment Options

Students often graduate with between 8-12 different student loans, all of which may have different interest rates. Graduate students have an additional 4-8 loans. Borrowers are often confused about the types of loans and payment options available to them. For example, there are multiple repayment plans and protections for federal loan holders, including income-based repayment plans, payments for a standard ten-year loan, and graduated repayment plans. These options work well for a certain segment of borrowers, but may not be the right fit for higher-income borrowers that can achieve lower interest rates through private loans, which are more flexible and often have variable rates.

Example

A recent graduate of a pharmaceutical school in Philadelphia recently entered the workforce with over $134,000 in student loans averaging 6.8 percent. Her starting salary as a pharmacist is $115,000 and she considered the best repayment options for her student loans and how to prepare to start saving for retirement through an employer sponsored retirement plan. Her student loan payments were excessive, totaling $1,550 per month and more than $760 per month in interest alone. By refinancing her loan into a 15-year term, GradFin worked with the borrower to reduce her monthly payment by $475 per month, including a $200 monthly reduction in interest paid. The savings were profound and resulted in new cash flow to put into her retirement plan and other financial opportunities.

Role of Financial Advisors

Financial advisors play an important role in helping borrowers find the best solution for their individual financial planning needs. Since the first payment many recent graduates make is to their student loan servicer, the advice of a financial advisor is vital to ensure that borrowers have the student loan plan that best fits their needs.

Financial advisors have the experience and knowledge to put student loans in perspective of their clients' overall financial health. They can evaluate the benefits and drawbacks of saving vs. paying off a student loan. Advisors understand better than anyone how individual borrowers can best position themselves for financial stability both in the present and in the future.

Benefits to Financial Advisors

Student loan advice is a good lead generation tool for financial advisors. Helping borrowers manage and reduce their student loan payments is often the first opportunity to assist and advise. Leading the relationship with student loan debt help will result in more clients because about 70 percent of college graduates have student loans, and most of them could benefit from a professional financial advisor helping them manage their payments and debt.

The money that borrowers save from refinancing their student loans can immediately be invested in other financial products. Any reduction on student loan interest rates can be put back into the savings of the borrower. For example, reducing a payment from $500 to $400 can save the borrower $1,200 per year or $12,000 in 10 years. This is real capital that can be reinvested in other financial products such as insurance, retirement, or other savings opportunities.

Conclusion

Advising borrowers on their student loan repayment options expands the relationship between customer and advisor. Such advice gives financial advisors an additional touchpoint with potential customers. Often times the number one concern of the client is their student loan debt. Addressing this problem first will lead to benefits in their overall financial health.

Managing the student loan refinance process for borrowers can serve as the perfect bridge between their current financial status and their future investment and retirement needs. Advisors that help borrowers with their student loan debt are often able to establish a longer-lasting relationship with the client. By helping borrowers save on their student loans, advisors become trusted and are relied upon for future financial advice.