

Retirement Delayed: The Impact of Student Debt on the Daily Lives of Older Americans



Student Debt: A growing problem for the young and the young at heart.

There is no question that higher education is still one of the best investments that anyone can make in their future. However, as financing higher education has increasingly come to mean relying on debt, post-college life for many has become a constant battle of financial priorities. Student loan debt is having a profound impact on the daily lives and spending habits of millions of Americans, both young and old. Many borrowers may never run into problems with their loans, but the mere existence of debt is a burden that is impacting the way many make important lifestyle decisions, and it has a daily impact on their financial security and purchasing power.

As the way we finance higher education has changed over the generations, so too have the demographics of those impacted by student debt. The words “student debt” once conjured images of fresh faced 20-somethings, newly sprung from college, living in an apartment crowded with roommates, eating Ramen noodles, and struggling to pay college loans on their smaller than anticipated first salary. But with a rapidly increasing population of older, “non-traditional” students enrolling in college every day,¹ not only is the image of new college graduates inaccurate, but so is the image of those struggling with student debt. Increasingly, student debt is an issue not only for the young, but also for the young at heart—recent graduates of all ages, middle-aged adults with loans from their own education or that of a family member, and an increasing population of seniors struggling with student loans into their retirement years.

The present day problems for younger generations with student debt are well known and widely reported. There are commonplace stories of borrowers moving back in with their parents for extended periods of time,² struggling to pay their loans in a less than ideal job market, and trying to launch themselves into a productive lifestyle that is financially secure, often delaying major life decisions like homeownership, marriage, and family until a dent can be made in their loan debt. There is evidence that student loans are creating economic insecurity, which makes commitment to long-term life choices of any kind more challenging. However, this economic insecurity is not just being felt by younger generations. Older Americans are feeling the pinch, too, and the long-term impacts of debt on both Millennials as they age and those older borrowers currently juggling life with student debt cannot be ignored or downplayed.

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Lack of Retirement Savings

Beyond paying for everyday necessities, one of the needs that borrowers of all ages strapped with student debt are putting off is the need to save for retirement. Retirement savings throughout the United States is already a matter of great concern, with less than half of working-age households saving enough to maintain their pre-retirement standard of living once they retire, according to the Center for Retirement Research at Boston College.³ Furthermore, statistics show that 31% of working Americans have no retirement savings at all, which includes 19% of those nearing retirement age.⁴ Student debt is one of the factors contributing to this delayed or inadequate focus on retirement savings. In fact, in a recent survey conducted by American Student Assistance® (ASA), 73% of respondents said they have put off saving for retirement or other investments as a direct result of the need to pay down their student loan debt. And, in a separate survey ASA® conducted at two AARP conferences in 2014, 31% of respondents agreed that student debt impacted their ability to save for retirement.

Loans Later in Life

With younger generations, it has always been a struggle to increase early participation in retirement savings. In general, only 30% of Americans ages 18-29 have started to save for retirement on a regular basis.⁵ This is a prospect that is unlikely to improve as more and more disposable income of younger generations is diverted to debt rather than savings. Additional financial struggles arise for those who have made the choice to go back to college later in life. A college degree may mean a higher paying job and more financial stability, but it may also mean years of college debts to pay off in lieu of retirement savings and saving for a child's education. The general rule of retirement savings is that if you begin saving for retirement in your 20s, you should save 10-12% of your net pay in order to save enough over your lifetime to be prepared to retire in your 60s.⁶ For those who have not started saving for retirement until their 40s, financial planners suggest that you save 15-20% of your take home pay toward retirement—a hard task to accomplish while also paying all other expenses that 40-year-olds face.⁷ Add student loans to the mix, and that's money diverted from savings to debt at a crucial time for retirement savings.

Parents in College Debt

In addition to loans that 40- and 50-year-old parents may have taken on to pay for their own education in the 1980s (which could have a 25-year repayment term or greater depending on their repayment plan), increasing college costs also mean that parents are taking on more and more of the burden to pay for

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their child's education in the key years when they should be saving for their own retirement. The federal Parent Loan for Undergraduate Students (PLUS) was established in 1980 to help parents meet the gap in their child's education between the amount of federal loans the student is entitled to borrow and cost of college attendance. These loans are administered by the U.S. Department of Education and have a few unique characteristics.

First, Parent PLUS Loans are not need-based, so anyone can access these loans regardless of income level. Second, Parent PLUS Loans have no limit to the amount that can be borrowed—a parent need only prove that the loan will go to the out-of-pocket costs for the child's education to receive a maximum award amount (the full cost of attendance minus any other loans and grants the student is eligible for). And, finally, these loans are granted to any parent who applies as long as they don't have adverse credit; the borrower's ability to pay or debt-to-income is not taken into account. As a result of these criteria, Parent PLUS loans have become increasingly popular among middle-income families who find a gap between what their child is awarded in aid, what they have saved for college expenses, and the sticker price of the college or university.

While the PLUS loan has been a good way for many to assist with their child's college education, it has become a debt trap for many others. The lack of cumulative loan limits mean that a parent could borrow up to the full cost of attendance each year for each of their dependent children. With tuition and fees ranging on average from \$3,260 at a two-year public school⁹ to \$50,000+ at some four-year private schools, parents can find themselves hundreds of thousands of dollars in debt heading into their retirement years.⁹ Hundreds of thousands of dollars may be an extreme case, but the reality is that there are currently around 3 million parents repaying \$62 billion in outstanding Parent PLUS loans.¹⁰ These additional payments, while seemingly necessary for a child's education, mean that a parent's retirement savings potential is decreased in the decades leading up to retirement. In all, the National Center for Education Statistics reports that 21% of parents took out loans of some kind for their child's education in 2001, up from 13% in 1999. This only adds to the average \$250,000 retirement savings shortfall faced by U.S. households nationwide.¹¹

Another way parents' finances can be impacted by education debt is if they co-sign a private student loan for their child. Most private student loans taken out by a student borrower will require a parent or other adult with good credit to co-sign. Even though the loan is in the student's name, if the student fails to pay, the financial responsibility of the loan will fall to the co-signer, an increasing problem as the unemployment rate for recent graduates sat at 8.5% last year with under employment at 16.8%.¹² This added financial burden, linked with the

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fact that the simple act of co-signing a private loan can impact the co-signer's credit, can have unforeseen and unplanned consequences for older borrowers.

In the pursuit to do what is best for their child, there is a growing concern that parents are mortgaging their own financial futures to make their child's higher education dreams come true. The student loan system was built on the premise that borrowing for college is a good personal investment because it will add to life-long earning potential and can be paid off over the course of a growing professional career. This is not the case for parents who borrow on behalf of their children. Parents don't have the same time frame to pay off these debts prior to retirement, and their own professional situation is not improved by their child's college education. As a result, their wages won't increase in the same manner that makes investing in a college education for someone else a safe financial bet.

Social Security Policy Impact

Savings delays and added debt later in life put a greater strain on resources for public supports for the elderly, such as Social Security. As older Americans increasingly juggle one more debt that diverts their attention from saving for retirement, the Social Security system will struggle to keep up with the needs of those unprepared for their golden years. Furthermore, because those young people with student debt are delaying life milestones like marriage and families, this also has a ripple effect on Social Security availability. Those who marry and have children later in life tend to have fewer children, which could have a long-term impact on how parents will be personally supported by their children as they age and how many workers will be available to financially support aging generations at large. We are starting to see this now as the Baby Boom generation heads toward retirement, and the current workforce struggles to meet the demands promised to retirees through Social Security and other financial support systems. This cycle will only continue as Millennials delay marriage and children to meet financial obligations such as student debt prior to raising a family.

Dealing with Student Debt in Retirement

As more and more Millennial and middle-age borrowers build up debts while they inch toward retirement, there is a quickly growing number of retirees already struggling with the burden of holding student debt on a fixed income in their retirement years. According to a recent report by the Government Accountability Office, approximately 706,000 households headed by someone 65 or older carry student loan debt. In addition, the amount of outstanding debt for this population has increased 600% since 2005, with the current outstanding

student debt balance at \$18.2 billion for this population.¹³ Some of these loans were taken to help children or grandchildren attend college, but most of them, over 80% according to GAO,¹⁴ are debts that seniors accumulated to pay for their own education.

The recent onslaught of policy efforts within the halls of Congress to simplify student loan repayment systems suggests that at times the process has been overly complicated or confusing. Many of the repayment options available to today's younger borrowers didn't exist decades ago when older borrowers were first taking on debt. As a result, those who got confused by the process, enrolled in long repayment terms that allowed years of interest to accrue, had missteps in repayment that added additional fees, or for whom life just got in the way, could find themselves mired in debts decades after taking them on. It is unclear from the information put forth by the U.S. Department of Education and reported by the GAO how many of these seniors took out debts decades ago or later in life to continue education, but the reality for hundreds of thousands of seniors is a monthly struggle to pay for education, intended to improve their lives and economic wellbeing, long after that career benefit has subsided.

For those who have been paying their debts for years, even if they have long since paid off the principal amount they borrowed, there is little ability to walk away from the burden of paying these loans. Since 1987 it has been extremely difficult to discharge student loans in bankruptcy. It is possible with a court showing of undue hardship, but the necessary standards are high and very few borrowers ever meet them. As a result, an ever increasing number of seniors find that their Social Security is being garnished in order to pay off long outstanding student loans. As it stands now, over 155,000 Social Security recipients, including those receiving retirement and survivor and disability benefits, had their Social Security garnished in 2013 due to student loan debt.¹⁵ Of this group, 36,000 were over the age of 65, a 500% increase from the level of 6,000 in 2002.¹⁶

Social Security is perhaps the best anti-poverty program in the nation—keeping millions of seniors afloat in their lean years, and currently providing a safety net for over 40 million Americans.¹⁷ When Social Security was established in 1935, there was a determination made that, in order to ensure the strength of the program as a safety net, no collections activities could be attached to Social Security in order to pay off debts. This policy held until 1996 when the *Debt Collection Improvement Act* allowed for unpaid student loans to be collected directly from Social Security benefits. The standard set at the time was that the first \$9,000 of benefits annually (\$750 a month) and no more than 15% of a

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recipient's monthly benefit would be shielded from garnishment.¹⁸ When the law went into effect in 1998, lowering a beneficiary's payment to not less than \$750 still kept the recipient above the poverty line.¹⁹ However, these limits have not been updated in the last 16 years, and when the federal government now leaves student loan borrowers with a Social Security check of \$750 per month, they are placing the recipient \$100 below the federal poverty line. If the guideline were adjusted for inflation, the GAO finds that the current cap against garnishment should be \$1,073 per month, or \$12,876 per year.²⁰

Tip of the Iceberg

Unfortunately, this student debt struggle is one that is more likely to increase than subside in the years ahead. Even though older borrowers are still greatly outnumbered by those in younger generations with student debt, the scope of this problem for older generations is growing exponentially. A recent report by the New York Federal Reserve showed that the number of Americans over the age of 50 with student debt has increased 130% in the last seven years, with 6.9 million Americans over 50 holding student loan debt.²¹ This makes up about 16% of the total student loan market outstanding. While the Department of Education doesn't release information on when seniors' loans were first originated, if we assume that many of the senior borrowers now struggling with student debt took out these loans between the ages of 18 and 35, that would mean these loans were taken out between the early years of the federal student loan program in the late 1960s through the early-1980s. As a point of reference, in 1974—the mid-point of that window—nationally 431,000 students borrowed \$528 million in federal student loans for an average of \$1,225 per year or \$4,900 over four years.²² That means that 30 years ago, only approximately 4.21% of the enrolled population borrowed in order to attend college, and yet we still have a portion of that small percent still trying to pay back their debts.²³ Today, 71% of all students borrow to attend college with the average debt amount for an undergraduate now reaching \$29,400 upon graduation.²⁴ Even accounting for inflation, this far outpaces the debt burden that today's struggling seniors initially took on in the '70s. What will the "seniors with student debt" picture look like when the Millennials hit retirement age? We can only surmise it will be much bleaker.

If this is indeed only the tip of the iceberg, then, as the number of students with debt balloons, and more students with debt become adults with debt and eventually retirees with debt, we need to do more to both reduce student debt overall, and help those already struggling with the burdens of student debt to manage it better throughout their lifetime.

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Recommendations:

1. Decrease Debt Burdens:

- a. Continue the push for policies that reduce college debt so that borrowers are not carrying this debt into their retirement years. This includes an increase in grant aid to lessen the need for loans and controlling the growing cost of higher education.**

For many years, grants were the primary means of paying for higher education, making up to nearly 60% of an average financial aid package and thus lessening the amount to be paid back post-college.²⁵ Today, grants make up only 40% of the average aid package, shifting the burden on families to take out loans in order to pay for school. Governments, both federal and state, should be encouraged to find ways to shift the balance back to make a borrower's aid package comprised of more grant aid. This will take a commitment from the federal government, which accounts for 44% of total grant aid awarded, but also from other stakeholders such as states, schools, and private industry.

In addition, there must be a commitment to control college costs. The vast majority of those attending an institution of higher education in the U.S. attend a public institution. While private colleges must do more to tame their escalating costs, states must make a commitment to control the growing costs at the public institutions that educate 76% of college goers.²⁶ According to the College Board, the average tuition and fees at public four-year colleges and universities rose 52.6% from 2002-03 to 2012-13.²⁷ The rise in tuition at public colleges and universities is a direct result of shrinking state budgets that have cut support to higher education. Costs are being passed on to students who must shoulder the burden of the state priorities in the form of higher tuition and fees. States should make more of a commitment to higher education as an economic development tool for their own state, as a job creator, as a means of economic growth, and as a means of long-term economic stability for their citizenry.

- b. Increase access to college planning services for families so that parents and grandparents who want to help support a family member's education understand the best options for doing so in a financially responsible way.**

Often the only information on college funding comes from high school guidance counselors or from the university financial aid office. Because

both of these groups of individuals are measured by metrics of getting students actively enrolled in college, they may be incentivized to push for enrollment regardless of the cost to the parent. Families should also be able to turn to a neutral third party or nonprofit for impartial advice about the best financial options for paying for college.

c. Reform policies and information for PLUS Loan borrowers.

- i.** When given the option to take out a Parent PLUS loan, borrowers should be provided with additional information about the ability and length of time to pay back these loans.
- ii.** There should be considerable policy debate about the possibility of placing caps on the amount of PLUS loans that can be borrowed. While it is admirable for parents to want to ensure their child's academic success with the assistance of the PLUS Loan Program, unlimited borrowing should not be an encouraged strategy, as it only serves to empower the goals of one generation at the expense of their parents' financial security.

2. Help Manage Existing Debt

a. Develop clear, concise information that walks older borrowers through the loan repayment process and highlights the federal student loan repayment programs available to them.

The strength of the federal student loan program is the breadth of payment options enacted by Congress that offer solutions for almost every imaginable barrier to successful repayment a borrower can face. The program's downfall, however, is that such an extensive range of options can be confusing—and the program offers no universal communication or support network to borrowers as they weigh their choices. When today's seniors took out loans in the 1970s and '80s, few of the repayment options available today existed. As a result, many older borrowers may not know that there are programs available to them to help manage their debt. Clearly borrowers are failing to take advantage of these programs, as evidenced by the growing number of delinquencies and defaults among older borrowers—over twice the number of defaults than for younger borrowers.²⁸ Every federal student loan borrower deserves the right to free, timely, proactive payment information and support from a neutral resource through the entire life of the loan—not just as they enter and exit college.

b. Establish a system of proactive, customized communications to seniors who face Social Security garnishment.

There is no need for a senior citizen's Social Security benefits to ever be garnished to the level of poverty. Given all the options available to them, the majority of seniors who live off of Social Security would, after a little paperwork, likely qualify for an income-based repayment plan and could find that their "repayment" is as low as only a few dollars given their income level, and eliminate the need to garnish their Social Security. The income-based repayment program was established to assist in just a situation such as this, but few seniors are walked through the options and steps to do this before their Social Security is taken.

At American Student Assistance, we took it upon ourselves years ago to annually identify and contact the senior citizens within our own federal student loan portfolio who were scheduled for offset of their Social Security benefits. While borrowers subject to offset of their federal benefits receive a standard Treasury Offset Program warning letter, it was our experience that many seniors were not responsive to this communication. So we decided to provide a targeted letter to these borrowers that clearly stated various options available, especially with respect to disability and financial hardship issues. We also provided a dedicated telephone line staffed by borrower advocates especially trained for this population. So far, this multi-year initiative has helped make seniors' lives better: More than 100 of our borrowers in this situation have taken advantage of options to reduce or eliminate the offset, either by completing disability applications or agreeing to make voluntary income-based payments.

But our experience has also shown that we're just seeing the tip of the iceberg when it comes to seniors and student debt. Where ASA's annual list of Social Security garnishees usually totals in the hundreds, in 2014 it surpassed 1,000. That means it is incumbent upon all the stakeholders in the federal student loan program—the government, colleges, and private student loan service providers—to up our game when it comes to proactive communications to this population. The choice is stark: we can either do the status quo bare minimum, or we can do what's right by seniors in their retirement years.

c. Support legislative changes to garnishment rules to keep seniors above federal poverty standards.

As the GAO found, the levels for garnishing Social Security payments to pay student loans have not been updated since the law was passed in 1996. In 113th Congress, Senator Susan Collins of Maine introduced, S. 2986, the *Social Security Garnishment Modernization Act of 2014*. This legislation would adjust the amount that is exempt from garnishment by the Department of Education for defaulted student loans. By guaranteeing that the exempt amount keeps up with inflation, the goal of the legislation is to ensure seniors do not fall below the poverty line with their garnishment. This bill has not yet been reintroduced for the current Congressional session, but when it is, it should be supported by all members of Congress interested in protecting senior citizens from unnecessary poverty.

d. Support legislation that allows for the refinancing of older federal student loans.

Senators Elizabeth Warren, Kirsten Gillibrand, and others have introduced various pieces of legislation that would allow borrowers with loans taken out before 2004 to refinance their loans at the lower interest rates available to today's borrowers. Such a policy would allow thousands of older borrowers to lower their monthly loan payments and reduce the monthly burden of their student debt.

Through federal policy and state budget priorities, it has become clear that as a nation we have chosen debt as the primary means of funding higher education. There is unlikely to be a seismic shift in the way higher education is funded in the coming years, so we must find a way to ensure that borrowers have better means of managing the debt they have taken on in order to improve their economic future. If the goal of federal student aid exists to promote social and economic mobility, the focus of future student aid policy should be on finding ways to limit the negative financial impacts that student loan debt has on the post-graduation consumer life of students well into their retirement years.

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