Mothers, Don’t Let Your Babies Grow Up to Be… Student Debtors

By Editorial Staff *Thu, Feb 4, 2016*

Two out of three households headed by people who borrowed for college but didn't graduate are at risk for not maintaining their pre-retirement standard of living in retirement, according to the Center for Retirement Research at Boston College.

How will young people be able to pay off more than $1 trllion in student loans and still be able to buy homes, educate their children, save for retirement?

The answer will have implications not just for younger people. Boomers will be counting on the savings of Millennials, and of Gen X and Gen Y, to provide liquidity when they go to sell their securities and their homes.

That question is examined in a research brief circulated this week by Alicia Munnell and Tony Webb of the Center for Retirement Research at Boston College. If all current retirees had today’s levels of college debt, the CRR’s National Retirement Risk Index (NRRI) would be 56.2% instead of 51.6%, they calculate. If student debt were eliminated, the NRRI would be 49.2%.

The household impact of student debt depends on the size of the debt, of course. But, overall, CRR found 60.1% of households with student debt were at risk for not maintaining their current level of consumption in retirement, compared to 49.2% for those without student debt.

In the pace of just 12 years, the volume of student debt in the US skyrocketed. “Student loan debt was $1.2 trillion in 2015, compared to just $0.2 trillion in 2003. It now accounts for more than 30% of total household non-mortgage debt, having surpassed credit card debt in 2011,” Webb and Munnell write. “The average student debt level for recent college students in 2013 was $31,000. The question is whether starting out $31,000 in the hole could have a big impact on households’ retirement preparedness.”

The researchers showed that the burden of student debt probably hinders the accumulation of home equity, a key source of wealth for middle-class retirees and the basis for reverse mortgage annuities or lines of credit. “Homeownership among households ages 30-39 declined from 58% to 53% between 2001 and 2013,” the CRR Brief said. “Households with student debt are 6.7% less likely to own a home and that the homes they do own will have a 5.4% lower value… Those with student debt may also delay buying a house.”

Parents often co-sign for student debt, so that it is “not just an issue for younger people, but also for their parents,” the authors wrote. It’s not just an issue for those with lower incomes either. “Middle- and high-income households are more likely to have student debt than those in the bottom third of the income distribution,” the report said.

Students who borrow money for college but don’t graduate will be the one’s most at risk for retirement shortfalls. “Those with student loans who have completed college have only a slightly higher percentage at risk than those without student debt (52.9% versus 49.2%),” the authors wrote, “but for households with student loans that did not complete college the difference is enormous (67.1% versus 49.2%).”