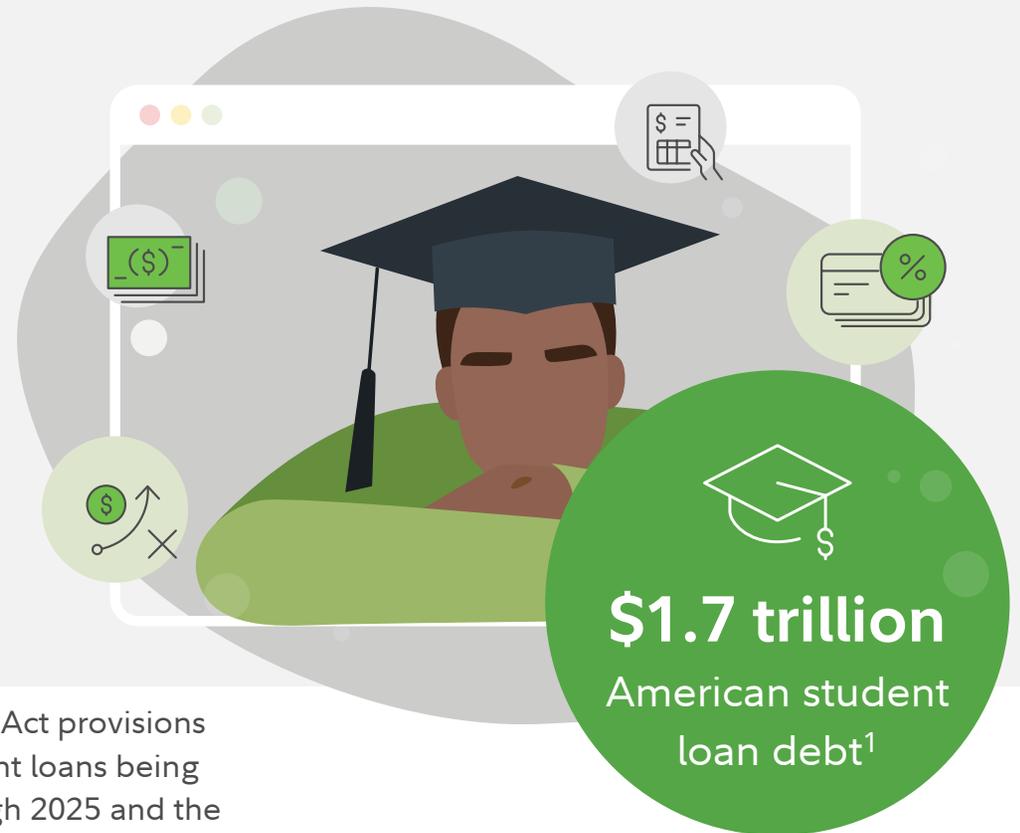


WORKPLACE THOUGHT LEADERSHIP

# Beyond Borrowing

Exploring the impact of student debt on underrepresented communities, and how leveraging student debt benefits as one part of an inclusive benefits toolkit may help attract and retain a diverse workforce and boost financial wellness among employees



Student loan debt has been an increasing concern to Americans as it continues to hit all-time highs year after year, currently exceeding \$1.7 trillion.<sup>1</sup> With the COVID-19 pandemic lasting longer than many anticipated, workers continue to face financial hardships and economic uncertainties. Fortunately, the CARES Act of 2020 provided some of the 38 million federal student loan borrowers relief from their monthly payments. Not so fortunate are those who hold private loans and are unable to make minimal payments.

With the CARES Act provisions impacting student loans being extended through 2025 and the prolonged financial impacts of the COVID-19 pandemic, employers are positioned to increase their diversity and talent retention efforts through incorporation of student debt repayment benefits, while providing significant support toward their employees' financial wellness. The CARES Act provision regarding student loan repayment allows employers to provide annual, tax-exempt contributions of up to \$5,250 per employee. If employees can continue to make their own payments along with employer assistance through the end of the

provisional period, they can shorten the length of their loan repayment period and save on the total amount of interest paid on the loan.

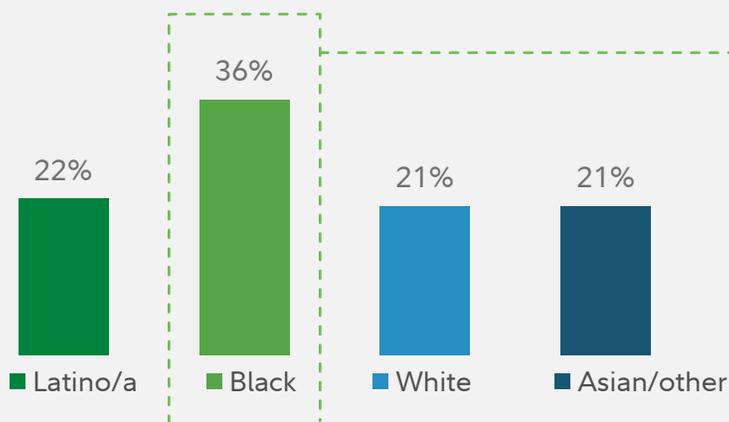
Unfortunately, few employees say they have access to student debt assistance through their employer benefits, especially those who could benefit from it most. Here we explore who is disproportionately affected by student debt and how employers can expand their benefits package to be inclusive of all their financial needs.

## The burden of student debt cuts across all demographic groups but is disproportionately higher among Black employees.

While student loan debt is prevalent across all segments of the workforce, Black employees tend to be shouldering this burden at a higher rate. There are several key factors that may drive this disparity, including that Black students are more likely to be unable to complete their education, possibly due to financial hardship related to generational and family wealth gaps.<sup>2</sup> Census data shows that Black respondents ranked higher than other demographic groups in their likelihood to have some college education, but no degree.<sup>3</sup> This leaves borrowers with the burden of debt, but without access to the higher earning power often associated with a degree.

Another possible factor for this gap could be attributed in part to the exponential growth of Black students enrolling in graduate programs.<sup>4</sup> However, even with advanced degrees, Black graduates continue to face bias in the labor market<sup>5</sup> and thus have difficulty in repaying the debt, amplifying the length of time spent paying back these loans.

Percent of Employees with Student Loan Debt



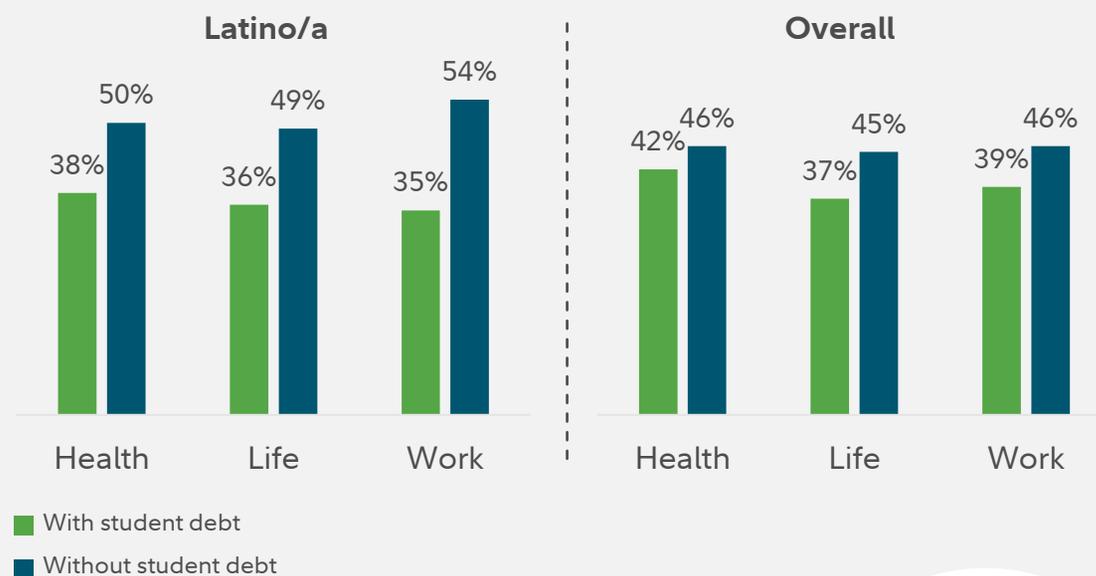
**Black borrowers owe an average of \$7,400 more** than their White peers upon graduation.

Accounting for differences in interest accrual and borrowing for graduate school, Black borrowers hold nearly twice as much debt as their White peers, just four years after graduation.<sup>6</sup>

Having student loan debt has a negative impact on financial wellness across all ethnicities, **but Latino/a borrowers see the biggest impact in their health, life, and work well-being.**

**With the average monthly payment around \$300**, it is no surprise that those with outstanding student loan debt experience a negative impact to their overall financial wellness and stress levels. However, when it comes to the impact on health, life, and work, the burden is not experienced equally. Latino/a borrowers show significantly higher stress levels, with the biggest gap showing up in their work well-being.

Percent of Participants Doing Very/Extremely Well in Total Well-being Domains



As student loan debt continues to grow, more and more employees are **finding themselves unable to save for their emergency and retirement goals and are delaying milestone life events,**<sup>7</sup> due in part to the burden of their educational debt.



**Nearly two-thirds of the total student debt belongs to women, totaling roughly \$929 billion.<sup>6</sup> That number is expected to grow as women continue to seek both undergraduate and postgraduate degrees at higher rates than men.<sup>8</sup>**

With historic barriers stacked against them, many women have turned to higher education as their strategy for progressing professionally and financially. Despite impressive progress and commitment to their education, those barriers are ever-present. Even with the same degree, **female graduates earn only 74% of what their male counterparts make.<sup>9</sup>**

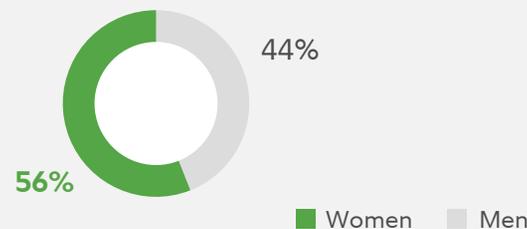
**Latinas and Black women find themselves at an intersection of compounding disadvantage.** Hiring biases and systemic racial and gender wage gaps have made it challenging for Black women and women of color to see the same accelerated career and financial growth as their White male peers, further exacerbating the challenge and timeline of loan repayment.

Additionally, the COVID-19 pandemic has caused more than **1 in 4 women to consider leaving or downshifting their career** to focus on home and family needs,<sup>10</sup> putting additional strain on their financial priorities and putting women at risk for professional setbacks.

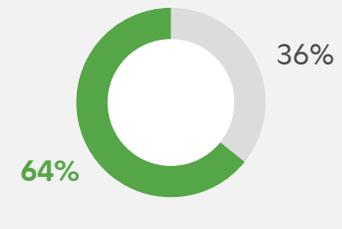


**Women comprise the majority of participants utilizing Fidelity's tools and benefits to help them manage their student debt,<sup>11</sup> signaling that student debt is one of the top financial priorities for women.**

**Fidelity's Student Debt Tool**



**Fidelity's Direct and Benefit Choice Plans**

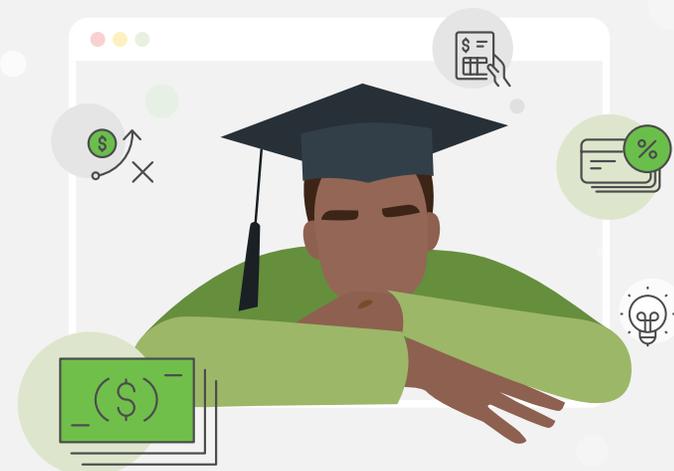


The CARES Act of 2020 provided temporary relief for many borrowers **but offered no support to those who hold private loans**—leaving many borrowers at risk for significant financial hardships during the COVID-19 pandemic.

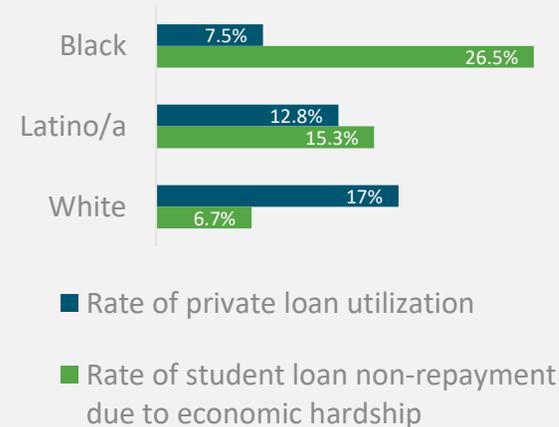
Private student loans make up approximately \$137 billion of the total outstanding student loan deficit. Unfortunately, Black and Latino/a borrowers have historically been targeted by private lenders and subjected to predatory practices that result in higher interest rates and little flexibility in repayment options.

The CARES Act applied only to loans owned by the Department of Education, which meant that borrowers who hold private loans did not have access to the same relief granted to federal loan borrowers. Monthly payments have still been required during the pandemic, and interest has continued to accrue on many private loans.

To make matters worse, Black and Latino/a workers were some of the hardest hit by pandemic-related job and income loss throughout 2020. For those who did not have access to the CARES Act relief, it is possible that many of these loans will become delinquent or even default, putting additional strain on borrowers and their long-term financial wellness.

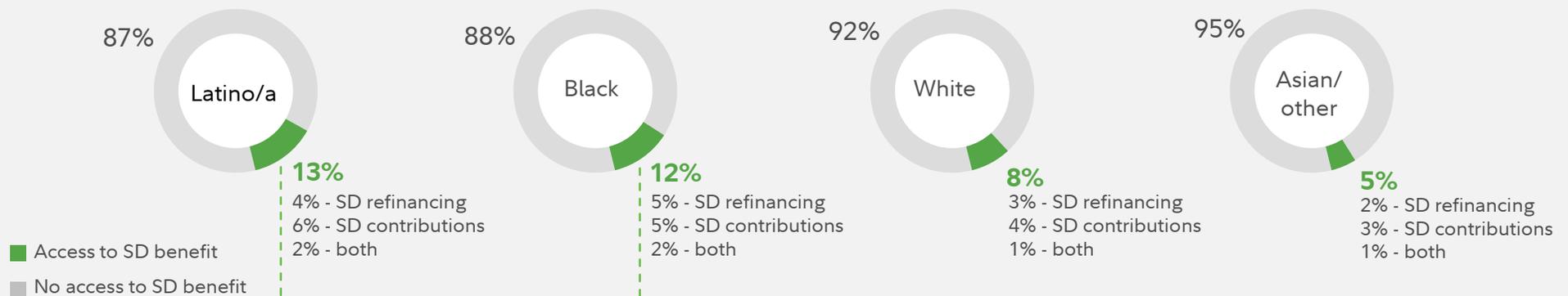


Though Black students use private loans less frequently than Latino/a and White, **Black borrowers are up to 4x more likely to experience distress in repayment of their private loans.**<sup>12</sup>



## Despite the negative impact to a borrower's total well-being, an overwhelming majority of employees do not have access to workplace support to help ease the burden of student debt.

As the price tag for higher education continues to grow, so have default rates on student loans—signaling that many are struggling to meet minimum monthly payments. Coupled with hiring bias and the ongoing gender and racial wage gap, Latinas and Black women find themselves most susceptible to falling behind in loan repayment and without the support to help them achieve financial freedom. With upwards of 87% of employees reporting that they do not have access to student debt benefits, this is a heightened area of opportunity for employers to help position their workforce for a healthy financial future.

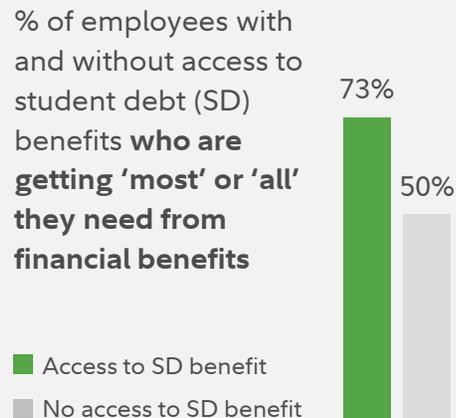


**Recognizing the disparate impact of student debt, prospective Latino/a and Black employees may be more inclined to seek out these benefits specifically when searching for employers.** Our sample shows that Latino/a and Black employees tend to have slightly more access to student debt assistance options than their White or Asian/other counterparts, which may suggest that offering an inclusive benefits package could result in diversifying recruiting efforts.

# Student debt benefits do more than ease the long-term financial burden; they improve the employee's total well-being while increasing workplace satisfaction and retention.

If you're looking for a way to support employees while improving retention and employee satisfaction, student debt benefits could be a significant differentiator as part of an inclusive benefits package. Now is an opportune time to offer this benefit, considering the ongoing challenges that women, Black, and Latino/a employees face due to the COVID-19 pandemic.

Employees who had access to student debt benefits as part of their total benefits package were 23% more likely to say they are getting what they need from their financial package.



## Student debt benefits are greater than just the contribution.

In additional studies among employees who were actively utilizing this benefit, employers saw improved retention rates while participants reported lower financial stress and took additional steps toward their financial goals.

Fidelity analysis of 24 early adopters of the Student Debt Direct Benefit, consisting of 100k+ participants, showed that **employees taking advantage of the program had a turnover rate 52% lower than those who were eligible but not enrolled.**<sup>13</sup>

Fidelity surveyed its own employees with access to student debt benefits to understand the impact on the employees' financial well-being.

**94% of respondents reported reduced student debt stress, and many were able to take additional steps toward financial security by saving more and paying down other debts.**<sup>14</sup>



While student debt still hinders millions of employees' ability to save for retirement and other financial goals, **women and people of color face compounding disadvantages and are increasingly affected by student loan debt.** Through the incorporation of student debt benefits into an inclusive total benefits package, employers can differentiate themselves to the diverse workforce they are seeking to attract and retain. By better understanding the needs of their current and future workforce and providing inclusive benefits and solutions to address those needs, employers are positioned to help close the gender and racial wealth gaps and set their employees up for long-term financial wellness.



### Three Key Considerations for Employers

- Consider running a student debt analysis across different groups (e.g., race/ethnicity, gender, age, LGBTQ+) to understand who is most affected and adjust existing strategy to align to those needs.
- Incorporate a tax-free student debt payment benefit program, complying with IRC Sec. 127 as amended by the CARES Act.
- Consider a student debt repayment benefit as part of an inclusive new hire compensation package.



### Resources to Share with Employees

- Fidelity's [Student Debt Tool](#) is completely free and enables borrowers to have a singular view of federal and private loan options by aggregating all their student debt loans in one place along with repayment options.
- To help families avoid accumulating education debt, our [Pre-College Planning Resources](#) can be used to help families plan, save, and pay for college.

**Unless otherwise noted, data is based on external survey of 4,615 U.S. workers with access to a 401(k) or 403(b). Of these, 3,596 are enrolled in their workplace retirement savings plan, and 1,019 (22%) are eligible but unenrolled. Survey fielded August 19 to September 23, 2020, so respondents are workers who had jobs with access to a 401(k)/403(b) at this time/during COVID-19 pandemic.**

<sup>1</sup> Board of Governors of the Federal Reserve System (US), Student Loans Owned and Securitized, Outstanding [SLOAS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/SLOAS>

<sup>2</sup> Brookings Institution, "Examining the Black-white Wealth Gap," 2020.

<sup>3</sup> U.S. Census Bureau, Educational Attainment, Table 1-3. April 2021.

<sup>4</sup> U.S. Department of Education, National Postsecondary Student Aid Study, 2016.

<sup>5</sup> Economic Policy Institute, "Black workers endure persistent racial disparities in employment outcomes," August 2019

<sup>6</sup> Brookings Institution, "Black-white disparity in student loan debt more than triples after graduation," 2016.

<sup>7</sup> Based on Fidelity Student Debt Benefit Associate Survey of 1,363 Fidelity employees formerly or currently enrolled in the Fidelity Step Ahead Student Loan Program. Responses were collected in November 2019

<sup>8</sup> The Condition of Education 2020 (NCES 2020-144). U.S. Department of Education. Washington, DC: National Center for Education Statistics. Retrieved 4/30/2021 from <https://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2020144>.

<sup>9</sup> Georgetown University Center on Education and the Workforce, "Women Can't Win: Despite Making Educational Gains and Pursuing High-Wage Majors, Women Still Earn Less than Men," 2018.

<sup>10</sup> McKinsey & Company, "Women in the Workplace," September 2020.

<sup>11</sup> Student Debt Tool and Fidelity Direct and Benefit Choice Plans as of 3/31/21. Users reflect current clients served, excluding FMR users.

<sup>12</sup> Student Borrower Protection Center, "Private Student Lending," April 2020.

<sup>13</sup> Fidelity Investments. (2021 February 9) *New Legislation Helps Employees and Employers Work Together to Tackle \$1.7 Trillion Student Debt Issue* [[Press release](#)].

<sup>14</sup> Based on Fidelity Student Debt Benefit Associate Survey of 1,363 Fidelity employees formerly or currently enrolled in the Fidelity Step Ahead Student Loan Program. Responses were collected in November 2019.

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