Does Student Loan Repayment Reduce Retirement Savings?

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Abstract

Student loan debt presents a significant financial challenge for American households as it significantly impacts a household's retirement savings. This study examines the factors impacting retirement savings of student loan holders paying down their student loan debt. The Survey of Household Economic Decision-making 2022 dataset was utilized for this study. A sample size of 7,707 respondents was utilized using Ordered Logistic Regression for analysis. To examine the effect of monthly student loan payments on retirement savings, the dependent variable was the current retirement savings of respondents in the study, while the independent variable was monthly loan payments. The model controls were financial literacy, employment status, employer-sponsored retirement, race, age, and marital status. The findings show that the respondents with high monthly payments were associated with low retirement savings. Financial literacy was positively associated with higher levels of retirement savings as respondents' financial literacy increased. The employment status of the respondents also plays a role in the ability to save adequately for retirement, with part-time and non-working respondents predicted to have lower retirement savings compared to full-time workers. Whereas retired respondents were predicted to be more likely to have higher levels of retirement savings. Access to an employer-sponsored retirement plan was also important, as it was observed that respondents who had access to a retirement plan from their employer were expected to have high retirement savings compared to those respondents who did not have one. Respondents who were widowed, divorced, or separated were predicted to be less likely to have high retirement savings compared to those respondents who were married. The interaction between financial knowledge and student loan debt payment on retirement savings showed that the level of financial knowledge possessed by respondents moderates the impact of student loan debt on their retirement savings. However, there were some mixed results observed. Respondents with low financial literacy were predicted to have lower retirement savings if they were making monthly payments lower than $300, while those who had loans but were not making payments yet were predicted to have high retirement savings, and no significant effect could be seen for those respondents making $300 or more in monthly payments. Mid-level financial literacy respondents were predicted to be less likely to have low retirement savings if they had not started making payments yet. No significance was seen for monthly payments of under $300 or $300 and above. High financial literacy respondents were predicted to be more likely to have high retirement savings if they had not started making loan payments yet. Similar to mid-level financial literacy respondents no significant effect was seen for those respondents who were making either under$300 or $300 and above in monthly payments. This may suggest that financial literacy at mid to high levels may mitigate the negative effect and overall impact of student loan debt on retirement savings.

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