Young Adults Not Ready to Save

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Student loan debt poses an obstacle to getting started on retirement saving

Those of us interested in retirement issues tend to focus on people approaching retirement or those who have completed their career. But, given the shift to 401(k) plans and the increased importance of starting to save at an early age, it is also important to look at young workers and assess their ability to begin and expand saving for retirement.

Young workers face a lot of competing demands for their money. Initially they need to set up an apartment, perhaps buy a used car, and acquire some decent work clothes. After a few years in the labor force, their thoughts turn to getting married and buying a house. Generally, it is only after these milestones are completed that young workers can seriously consider saving for retirement. To the extent that these milestones are delayed, saving for retirement will be postponed and amassing adequate assets made more difficult.

A number of economic trends, such as slow wage growth, the need for graduate work, and higher required down-payments for homebuyers, are likely to delay life-cycle milestones. But the major development that will slow the start of retirement saving is the growth in student loans.

How bad is the student loan picture? According to The Institute for College Access & Success (TICAS), a non-profit policy research group in Oakland, California, two thirds of the graduating class of 2011 – the latest year for which data are available – had student loan debt. The average amount of debt was $26,600 for those with loans. This figure reflects only students and debt at public and private, non-profit, four-year colleges. For-profit colleges are excluded because so few responded to the voluntary survey. For-profit colleges awarded about seven percent of bachelor's degrees; about 96 percent of these graduates took out student loans; and their loans were 45 percent more than graduates from other institutions.

Now we are talking about the privileged when we focus on college graduates. College graduates account for only 32 percent of young adults, and study after study shows that the returns to a college education are still enormous. Indeed, recent data show that college graduates have weathered the economic storm much better than those with only a high school education, experiencing much less unemployment and earning higher salaries. Nevertheless, the weak economy has made getting that first job difficult; unpaid internships or jobs that do not require a college degree often are the only opportunities available. A slow career start will make paying off student loan debt more difficult, delay milestones, and postpone the beginning of the retirement saving process.

Student loan debt now exceeds credit card debt. According to the Federal Reserve's statistical release, **G.19 Consumer Credit**, revolving credit, almost all of which is credit card debt, totaled $846 billion in 2012. In a separate report, the Federal Reserve Bank of New York **reports** aggregate student loan debt of $966 billion in 2012. And student loans are tough. According to *Consumer Reports*, borrowers generally cannot escape the obligation of student debt by declaring bankruptcy, unlike most consumer loans. And, to ensure repayment, lenders can garnishee wages, tax refunds, and even Social Security benefits.

In short, those of us worried about secure retirements should start thinking more about what is happening early in the life cycle. In a world where compound interest is king, a really late start can prove disastrous.