Student debt loads increasing, StatsCan study finds

Almost six in 10 post-secondary graduates have student debt; their financial well-being and that of their parents are affected

By Megan Harman

Students are graduating from post-secondary institutions saddled with debt and are taking longer to become financially self-sufficient, suggests new research. This is hampering the ability of younger generations to save and invest for the future and, in some cases, is forcing their baby-boomer parents to sacrifice retirement savings.

A recent Statistics Canada report reveals 57% of the graduating class of 2005 had student loans, up from 49% a decade earlier. Average student debt upon graduation rose to $18,800 from $15,200, and the proportion of borrowers who graduated with debt loads of at least $25,000 increased to 27% from 17%.

"It's a significant amount of money," says Adam Goodman, author of the personal finance book *Following The Goods: Financial management for the young and ambitious*, which was published in 2009. He notes that borrowers who pay off their student loans by making minimum payments often end up carrying the debt well into their 30s. "It definitely affects their financial future, whether they acknowledge it or not."

Indeed, the StatsCan study shows that student debt can have a lasting impact on an individual's financial well-being. It finds that post-secondary graduates are less likely to accumulate savings in the years after university if they borrowed money to finance their education. Among post-secondary graduates aged 20 to 45 in 2007, 42% of those who had student loans also had savings and investments, compared with 52% of other post-secondary graduates — all other factors being equal.

Furthermore, the StatsCan study shows a substantial gap in wealth levels between those who borrowed and those who didn't. In 2005, the average amount of assets of post-secondary graduates aged 20 to 29 who had borrowed money was $60,700, compared with $106,300 for those who hadn't taken out loans. The overall average net worth of student-loan borrowers was $17,500 — less than a third of the $61,900 average for those who did not borrow.

"Leaving school with debt will understandably slow down the initial accumulation of wealth, but the reward of higher education will often pay off over the long term," the StatsCan study says. "Nevertheless, deeper debt is likely to extend the turnaround period in which student-loan borrowers are able to start accumulating wealth."

Exacerbating the problem is the fact that it can take time for recent graduates to find full-time employment — particularly in the current economic environment. "You're seeing more and more students not getting jobs when they come out of school," says Frank Wiginton, a certified financial planner with **TriDelta Financial Partners Inc.** in Toronto.

When new graduates do find employment, they typically end up with entry-level salaries that, after covering living expenses, provide little extra cash for debt repayment. As a result, many graduates take longer to pay down their debt, which often delays their ability to save for the future and to make major purchases such as a house or a car.

"Next thing you know," says Wiginton, "you're 40 years old and you still don't own anything."

The financial woes of recent graduates can affect the financial plans of their parents as well, because the children are taking longer to become financially self-sufficient. A recent **Investors Group Inc.** survey

found that a majority of baby boomers became financially self-supporting before age 21, but they don't expect their children to achieve the same goal until age 25.

"We have a generation of young adults who are heading off to school in larger numbers — higher percentages than we've seen in past generations," explains Jane Olshewski, manager of financial life planning at Winnipeg-based Investors Group. "There is going to be a natural delay for financial self-sufficiency [compared with] past generations — they're just not out in the workforce making money at the same age."

The Investors Group survey found that six in 10 baby-boomer parents are providing financial support to their adult children, in amounts averaging $3,675 a year.

This support is weighing on the portfolios of baby boomers, who are approaching retirement. Some parents surveyed said they have had to scale back the amount they're investing for retirement because of the financial support they're providing for their adult children; a small proportion of survey respondents expressed concerned that this will jeopardize their retirement security.

Financial advisors have an important role to play in helping both clients and their children adapt to this new reality, Olshewski says. In the years before a client's children attend college or university, advi-sors can help clients establish registered education savings plans. Both a tax-sheltered savings vehicle and a means of receiving government grants, an RESP can help clients better prepare for the steep costs of post-secondary education.

In situations in which clients are providing financial support to their adult children following graduation, Olshewski says, it may be necessary for advisors to revisit the clients' long-term financial plans — parents may not have anticipated such expenses.

"If the support that clients are providing to an adult child is affecting their long-term goals," says Olshewski, "go back and have that 'priorities and goals' conversation with them." **IE**