OLIVER WYMAN

THE STUDENT LOAN REPAYMENT BENEFIT

OPPORTUNITIES TO SERVE A PRESSING FINANCIAL NEED

THE IMPACT OF STUDENT DEBT

The level of student debt in America has soared, as has been well-publicized in recent years. Much media coverage has been devoted to the crisis that may emerge from student loans that fail to generate a positive economic return for borrowers. But relatively less study has been devoted to the unique challenge facing another set of individuals: graduates for whom student loans represent a gateway to higher education and greater economic prospects, but who still enter the workforce with an unprecedented financial challenge.

Today, 70% of college students who earn a bachelor's degree borrow to attend college. Among those who graduate with debt, the median amount borrowed is more than $25,000. For graduate degree recipients, the total amount borrowed is much more. The median MBA borrower leaves school with $45,000 in student debt and the typical doctor leaves school with almost $200,000 in loans. At prevailing rates, this level of debt equates to a $265 monthly payment for the typical college graduate and a $1,600 monthly payment for the typical medical school graduate.

At this cost, monthly student loan payments easily can match or exceed the cost to lease a car or to rent or own a home.

Exhibit 1: How does student debt vary by type of degree?

50TH AND 75TH PERCENTILE STUDENT DEBT BY DEGREE

Degree	% Graduate with debt	Cumulative debt	Payment
Bachelor's degree	69%	$26,500 $40,000	$268/mth[1] $405/mth[1]
Masters in Business Administration (MBA)	60%	$45,700 $66,300	$386/mth[2] $559/mth[2]
Master of Science (MSc)	63%	$46,500 $80,000	$392/mth[2] $675/mth[2]
Master of Art (MA)	71%	$60,000 $85,200	$506/mth[2] $719/mth[2]
Law (LLB or JD)	87%	$138,000 $189,700	$1,165/mth[2] $1,601/mth[2]
Medicine (MD or OD)	85%	$193,100 $243,800	$1,629/mth[2] $2,057/mth[2]

Percentile: 50th 75th

Source: Oliver Wyman calculations based on 2012 National Postsecondary Student Aid Study data.

*1 Estimated assuming a 4% interest rate and 10-year repayment term.

*2 Estimated assuming a 6% interest rate and 15-year repayment term.

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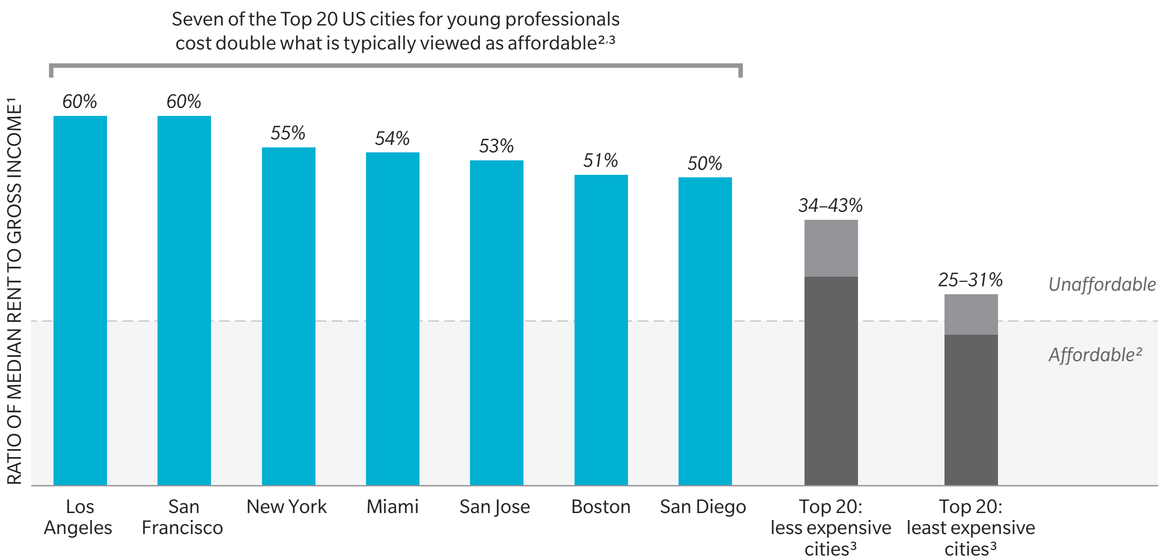
The impact of this debt burden is compounded by the fact that recent graduates are increasingly starting their careers in metropolitan areas where the concentration of employment opportunities is higher, but where the cost of living is also the greatest. In fact, in many of the cities that attract large numbers of young professionals, such as San Francisco, New York, Los Angeles and Boston, the cost of housing is effectively unaffordable relative to median incomes. Both of these trends constrain the ability of working professionals to save, as a large portion of income is necessarily allocated towards student loan payments and housing costs.

Exhibit 2: How much does it cost to live where young professionals work?

YOUNG PROFESSIONALS MUST SPEND 50–60% OF THEIR GROSS INCOME TO AFFORD A MEDIAN PRICED 1-BEDROOM APARTMENT IN THESE U.S. CITIES



1. Calculated using median rent for a 1 BR apartment as of December 2016 from Zillow and median earnings for full time workers age 18–34 from the US Census.

2. Affordable is defined as a front-end rate (i.e. housing cost/gross income) of no more than 28 percent.

3. Top 20 cities selected based on Metropolitan Areas with most 18–34 year olds with a bachelor's degree or more.

4. "Less expensive cities" include Seattle Chicago, Washington, DC, Denver, Atlanta, Houston, Dallas, Philadelphia; "Least expensive cities" include Baltimore, Minneapolis, Phoenix, Detroit, St. Louis.

Source: US Census Bureau, Zillow, Bankrate.com

The cost of repaying student debt, coupled with the cost of living in those areas with the greatest employment opportunities, result in the majority of this generation of working professionals holding a common financial burden that prior generations simply did not face to the same degree.

That burden is creating palpable stress. A recent Oliver Wyman survey indicates that 80% of working professionals with student debt consider their student debt to be a source of either significant or very significant stress.[1] This is the same level of stress that respondents associate with saving for retirement and is slightly higher than what they associate with paying for housing or health care costs.

1 Oliver Wyman survey was conducted in May 2017 of 3,002 households, of which 1,012 or 34% had outstanding student debt. See Appendix for a description of the survey methodology.

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Despite this, targeted solutions have been relatively slow to emerge. Banks and fintechs have begun to accelerate the pace of change over the past couple of years, particularly with student loan refinancing options and technology applications to manage student debt repayment. In the employee benefits space, student loan repayment contributions have also emerged as a solution, but employers have demonstrated relatively limited engagement to date, with just 4% currently offering such a benefit.[2]

> ***Just 4% of employers** currently offer student loan repayment contributions as a benefit*

Employers have a long list of reasons to address this need. With strong demand for talent, many face an increasingly competitive environment for recruiting and retaining employees. A growing focus by employers on a comprehensive approach to employee wellness, including financial health, reinforces the relevance of a student loan repayment benefit. An employer-led solution could also create meaningful impact as an access point for banks, fintechs and benefit providers that offer student loan repayment solutions.

Given the potential importance of the employee stakeholder in providing solutions, Oliver Wyman conducted a consumer survey of 3,000 American households with a bachelor's degree or higher, to further explore the desirability, impact and opportunity for an employer-led student loan repayment contribution benefit program. The results provide a unique lens on how working professionals think about their prospective employer's participation in their student loan management and repayment.

2 *"2016 Employee Benefits: Looking Back at 20 Years of Employee Benefits Offerings in the U.S."* Society for Human Resources.

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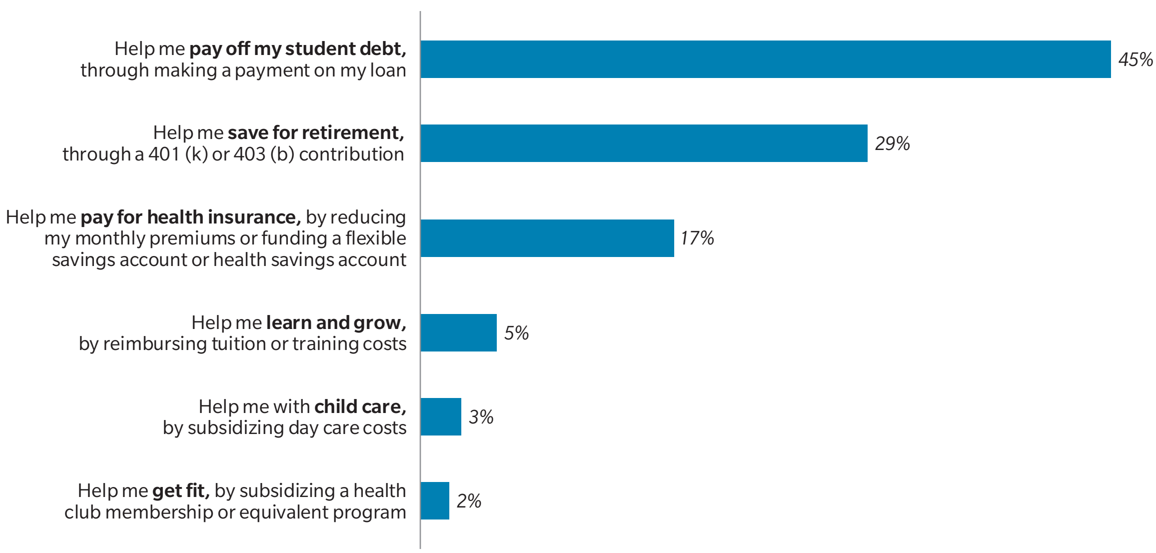
BENEFITS TO MEET A CHANGING ENVIRONMENT

Given the financial impact and stress level associated with student debt, the findings of our recent survey are not surprising: employees with student debt would greatly appreciate assistance from employers; would in many cases value a student loan debt benefit ahead of other common benefit options; and would weigh a student loan repayment benefit in evaluating a job offer and/or continued employment. Specifically:

- 58% of survey respondents with outstanding student debt indicated that they would prefer that their employer make payments to help reduce their student debt versus making additional contributions to their retirement funds.
- 45% of survey respondents with outstanding student debt also selected assistance with student loan repayment as the single most compelling employee benefit among six potential options, including retirement and health care contributions.

Exhibit 3: What benefits do working professionals with student debt prefer?

SUPPOSE YOUR EMPLOYER OFFERED TO SPEND AN EXTRA $200 EACH MONTH ON YOUR BENEFITS. OF THE OPTIONS BELOW, WHICH IS THE MOST COMPELLING CHOICE FOR YOU?



Source: Oliver Wyman consumer survey of a representative sample of 3,002 US households between 18–50 in age, with a bachelor's degree or more, and who are either employed or seeking employment. Of the 3,002 households that qualified to complete the survey, 1,012 had outstanding student loans. Conducted May 2017.

Given the immediate constraints created by student debt and housing costs, many working professionals prefer the near term and immediate benefits of student loan repayment over the longer term and less certain benefits of additional retirement savings. This is not to say that employers (or employees) should choose to address one issue over the other, but rather that both are important to the financial health of working professionals.

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In this environment, a student loan repayment benefit is increasingly becoming an employer benefit that has substantial appeal with a large segment of working professionals. Oliver Wyman's research suggests that a student loan repayment benefit would have a meaningful impact on recruiting, referrals and employee retention: among working professionals with student debt, 90% say that having a student loan repayment benefit would positively impact their decision to accept a job offer, to recommend an employer or to want to stay at their current employer.

> *Research suggests that a student loan repayment benefit would have a* ***meaningful impact on recruiting, referrals and employee retention***

It is therefore not surprising that several large employers have recently added student loan repayment as an employee benefit and that a number of technology providers are making the benefit easier to deliver. Employers that offer the benefit make direct contributions to their eligible employees' student loan servicers to help pay down outstanding student debt. Annual employer contributions generally range from $1,200 to $6,000 per year. While annual contributions are typically fixed, some employers have designed their plans to ramp up contributions over an employee's first few years of employment, which increases the value of the benefit over time and creates a financial incentive for employees to stay with the firm.

Exhibit 4: What types of student debt repayment benefits are currently offered in the market?

EMPLOYER	SIZE OF BENEFIT	LIFETIME CAP	ELIGIBILITY REQUIREMENTS
Leading retail brokerage	$2,000/year	$10,000	• Employees with six months or more of service eligible.
Large health insurer	$2,000/year	$10,000	• All full and part-time active employees eligible. • Must have earned degree within 3 years of applying.
Professional services firm	$1,200/year	$7,200 *(over six years)*	• Associates and senior associates eligible.
Technology company	$6,000/year *(capped at lesser of $500 or required monthly payment)*	$30,000	• All full and part-time active employees with three or more months of service eligible.

Source: Forbes.

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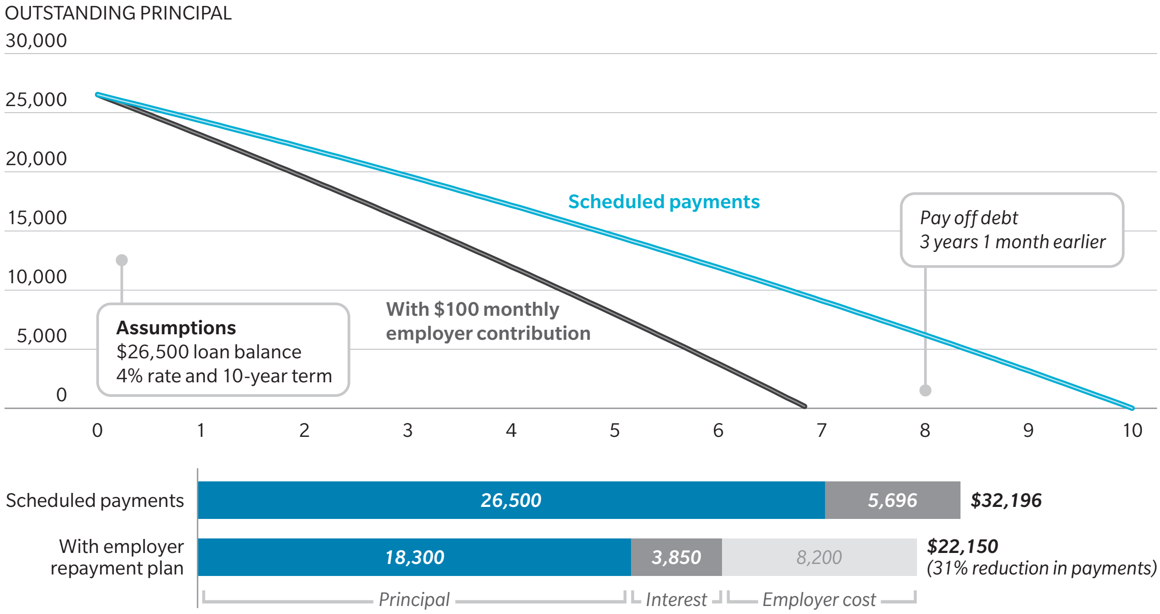
The impact of the benefit for working professionals with student debt is very significant. For an employee with a loan balance of $26,500, the median amount owed by a bachelor's degree borrower, a $100 per month employer contribution on a typical student loan would yield a combined savings of over $10,000 in principal and interest, an over 30% reduction in total payments. It would also reduce the amount of time it took to fully pay down the student debt by more than 3 years, a 30% reduction in term.

Exhibit 5: What is the impact of a student loan repayment plan?

IMPACT OF A $100 MONTHLY EMPLOYER CONTRIBUTION TO THE MEDIAN BACHELOR'S DEGREE BORROWER



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CONCLUSION AND CONSIDERATIONS

The consistent growth of student debt over recent decades has helped to bring about the most highly educated workforce in American history. However, as more people take on student debt to finance their educations, a larger number of graduates and young professionals will place support for repaying this debt among their highest financial priorities.

Just as financial services firms –including banks and fintechs – are evaluating their strategies with regard to student lending and student loan repayment solutions, employers should also evaluate the relevance of student loan repayment assistance to their workforce and determine how it can improve the competitiveness of their value proposition to both recruit and retain talent. Those that determine student loan repayment assistance is a valuable part of their offerings then must evaluate opportunities with regard to how best to provide a benefit:

- Should the student loan repayment benefit be something that they finance (potentially at the expense of other existing benefits)? At what level?
- Should the benefit take another form, such as a relationship with a preferred student loan refinancing provider or a technology application that makes repayment easier and more seamless?
- If an outside partner is chosen, who provides the right fit for their needs?

As employers consider their opportunity in providing a student loan repayment benefit to their employees, banks and fintechs with emerging solutions for this large and growing segment of the population should also reevaluate how they engage the employer channel in order to reach potential end customers.

Ultimately, those employers and financial institutions that are able to help their employees and clients manage their student debt have an opportunity to distinguish themselves by directly addressing one of the biggest unmet financial needs in the lives of working professionals.

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APPENDIX: CONSUMER SURVEY DESCRIPTION

Oliver Wyman conducted a consumer survey of 3,002 American household in May 2017 to measure the level of stress that working professionals associate with student debt relative to other financial obligations and to evaluate the attractiveness of a student loan repayment benefit relative to other employer benefits, such as retirement, health care, child care, etc.

The survey focused on working professionals that had a bachelor's degree or higher, were between the ages of 18-50, and were either employed or seeking employment. The survey was conducted through an online panel of respondents and was balanced based on the US Census to ensure a representative sample of the targeted segment of the US population across multiple dimensions, including geography, income, age, gender, and ethnicity. Of the 3,002 households that qualified to complete the survey, 1,012 had outstanding student loans.

The exhibit below summarizes the distribution of the sample relative to the census targets.

	SAMPLE	CENSUS TARGET	DELTA
Regional Breakdown			
Northeast	20%	18%	+2%
South	37%	37%	-0%
West	23%	24%	-1%
Midwest	20%	21%	-1%
Income Breakdown			
Less than $25,000	19%	25%	-6%
$25,000 - $49,999	23%	25%	-2%
$50,000 - $74,999	20%	18%	+1%
$75,000 - $99,999	14%	12%	+2%
$100,000 - $149,999	14%	12%	+3%
$150,000 - $199,999	6%	4%	+1%
$200,000 or more	4%	4%	+0%
Age Breakdown			
18–24	17%	23%	-6%
25–34	31%	30%	+1%
35–44	33%	30%	+3%
45–50	18%	17%	+1%
Gender Breakdown			
Male	50%	50%	-0%
Female	50%	50%	+1%
Ethnicity Breakdown			
White/Caucasian	73%	72%	+1%
Black/African American	12%	13%	-0%
Asian/Asian American	8%	5%	+4%
Native American/American Indian/Pacific Islander	1%	1%	+0%
Other (please specify)	5%	9%	-4%

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Oliver Wyman was commissioned by First Republic Bank and its subsidiary, Gradifi, Inc., to conduct an independent study of the student loan landscape and the market for a student loan repayment benefit. The primary audience for this report includes employers, human resource executives, and employees with student debt obligations.

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