Student Loan Repayment Programs

A Low Cost Benefit That Will Make a Difference

Despite being a popular idea among millennials (and increasingly Gen Z) college grads, student loan repayment programs have yet to resonate with employers. This offers aggressive employers a significant opportunity to differentiate themselves from competitors in recruiting and hiring.

With a recent IRS opinion approving the arrangement, 401(k) employers can leverage their program in such a way as to help employees pay off student loans without incurring any additional cost.

Private vendors have jumped with multiple offerings, which at heart, are automatic payments by payroll deduction.

In this briefing we outline the issue, survey the landscape and available programs.

DATA POINTS

- The average undergraduate student loan burden in 2018 was $30,000.
- The median (in 2012) combined debt for a master's or professional degree was $57,600.
- Average monthly student loan payment (in 2017) totals $393.
- 66% of employees want employers to offer student loan assistance.
- Only 4% of employers offer assistance to repay student loans.
- Employer Participation in Repayment Act introduced this year promises to offer tax breaks up to $5,250 to employees receiving employer student loan contributions.

WHAT'S THE ISSUE?

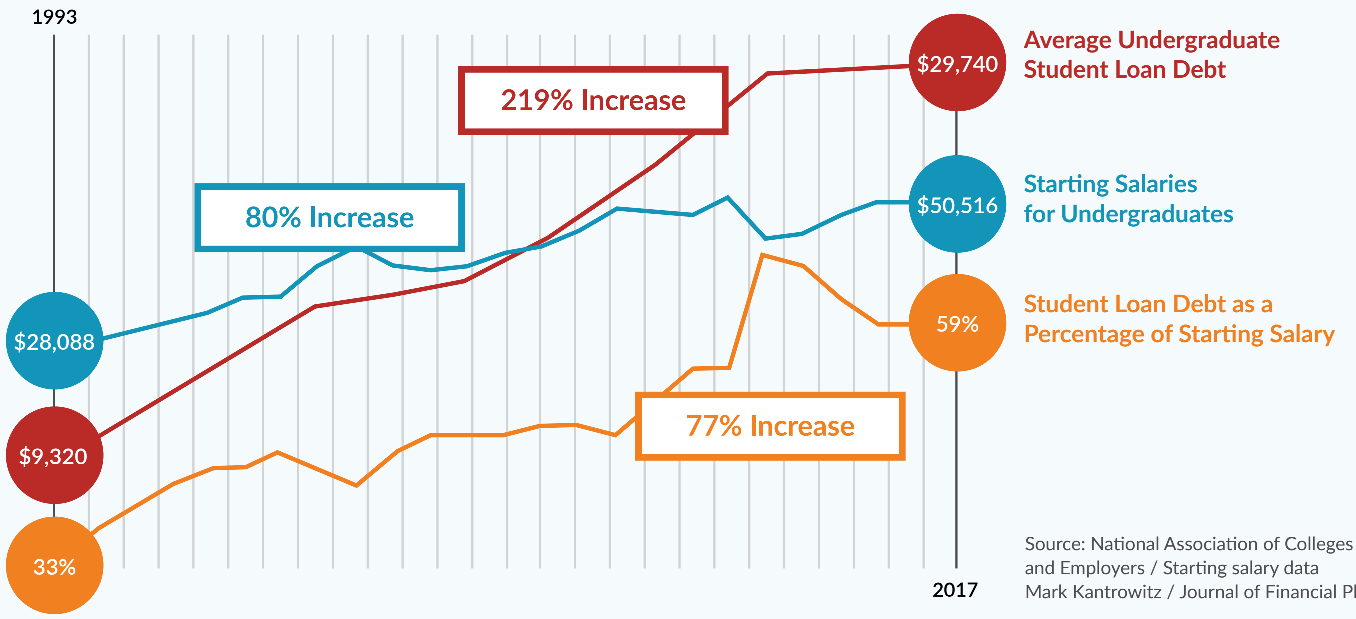
The college undergraduate debt burden has been rising steadily for decades. In 1993, the average college senior left school with $9,320 in loans. In 2018 it was $29,812, according to data from the **National Postsecondary Student Aid Study**. (A Federal Reserve survey, among others, show amounts higher by 10% or more.)

The impact of this debt may not be immediately apparent until you compare it to starting salaries. Using unadjusted figures, we find that in 1993 the debt to starting salary ratio was 33%. Today, it is 58%.

With an average undergraduate student loan debt of $30,000 and a monthly loan payment of nearly $400, millennial workers especially struggle to stay above water. In 2015, 34% of those 18-34 were living with their parents; a decade earlier, 26% lived at home. Even then, 10.3% of graduates were behind in their payments.

As multiple studies show, financial worries have a direct impact on productivity. A Mercer survey found employees spend about 150 hours annually of their work time worrying about money. According to the Financial Fitness Group, for every 100 employees, your company loses 22.5 workdays per year due to financial distress. A 2016 Towers Watson survey found that workers stressed about their finances are absent from work 3.5 days per year — almost double the absenteeism of workers that aren't stressed.

Student College Loans Compared to Starting Salary (1993-2017)



Source: National Association of Colleges and Employers / Starting salary data
Mark Kantrowitz / Journal of Financial Planning

As the number of workers with outstanding loans has grown, so has interest in having employers help with repayment.

A 2018 survey by loan benefits provider IonTutition reported 80% of employed student loan borrowers want a voluntary student loan assistance benefit. And by increasing percentages over the last three years, workers are willing to pay for it by diverting 401(k) dollars.

However, 78% of the survey participants said their company offered no loan repayment program.

The Society of Human Resource Management, which surveys its members annually on the benefits their company provides, most recently reported only 4% of companies offer some kind of loan repayment program. It's a percentage that has hardly budged since 2014, when SHRM first asked about the benefit.

A similar percentage of companies have historically made direct educational loans loans available to employee families. A larger, but declining, number of companies offer scholarship aid, a fact SHRM presciently lamented in the 2014 Employee Benefits report:

> *The decline in the percentage of organizations offering educational assistance benefits comes just when many organizations are reporting increased difficulty in finding jobseekers with the educational qualifications needed for many high-skilled jobs. The decline in educational benefits offerings could lead to future skills shortages.*

Companies Providing a Studen Loan Benefit

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Loan repayment benefit				–	–	–	3%	4%	4%	4%
Educational loans for members of employees' families	2%	3%	2%	2%	1%	2%	1%	2%	2%	2%

Source: Society of Human Resource Management Benefits

AVAILABLE PROGRAMS

Payroll Deduction

This is the most common student loan repayment program. The employer contracts with a third-party administrator, which will handle making the payment from funds deducted from the employee's paycheck. Most administrators also offer related services such as loan refinancing options and online resources.

As a voluntary benefit, employers can directly subsidize the program or pass the costs to the employee.

Direct Payment / Employer Contribution

With a direct payment benefit, companies agree to pay a set amount toward an employee's student loan debt each year, typically around $1,200, as long as the employee stays up to date with their student loan payments.

To facilitate the management of this plan, companies will employ a third-party employee benefit administrator like Gradifi or Tuition.io. Gradifi has three workplace solutions to help employers, with more than 500 employers participating. The Gradifi Student Loan Paydown Plan is a cloud-based program that allows employers to make direct contributions to employees' student debt. While some employers set a cap for how much they will pay toward a student loan debt, others have no such maximum payout.

Fidelity's direct payment employees receive up to $2,000 a year, with a $10,000 max, toward student loan repayment. The Step Ahead Student Loan Assistance benefit comes with access to online tools that help with managing debt. Because the benefit is paid monthly an employee who leaves the company will not be responsible for paying back any portion of the loan assistance.

401(k) Match

This is a novel approach to providing student loan assistance. Instead of foregoing saving for retirement as the IonTuition survey found, this program allows employees to use their student loan payments as their 401(k) match.

Given the blessing by the IRS (Private Letter Ruling 201833012) last year, companies contribute to an employee's 401(k). The employee's share, instead of going into the retirement account, goes to pay off their loan.

Abbott Laboratories, which requested the IRS ruling, contributes 5% of an employee's paycheck to a 401(k) plan if the employee contributes at least 2% through payroll deduction. Employees with student loans, can use their 2% to pay down the loan.

Unlike other student loan repayment programs where money is contributed directly to the employee (or paid to the loan processor), 401(k) contributions are not taxable. This program enables the employee to pay down their loan while also building a retirement fund.

In 1993 student loans were 33% of starting salary.
Today, it is 77%.

Tiered Student Loan Repayment Plans

Allowing employees to contribute in a tiered student loan repayment program establishes the foundation for employee loyalty and long-time success. In a tiered program, companies contribute a set dollar amount the first year, increasing that amount in subsequent years.

Typically, there is a cap as to how much a company will contribute (often reached at 5 years). Some companies, such as First Republic, do not place a lifetime cap on this benefit. Also, the plan is offered to employees who are paying for a dependent to attend college.

Exchange for Unused Paid Time Off

Companies like Unum Group will help employees pay down their student loan debt in exchange for up to five PTO days carried over from the previous year. Such programs use the accrued time off, which may carry over from year to year, as a commodity that can be traded to assist employees with their student loan burden.

Underserved Areas

Healthcare professionals who work in underserved areas have a myriad of options when it comes to repaying student loans. Specifically, nurses and doctors have access to specific programs, such as the NURSE Corps Loan Repayment Program and the National Health Service Corps Program, which will help to pay up to 60% and more of their student loans. In addition, regional assistance may also be available to provide relief.

Employers may provide advice and information on these programs, but in most cases application is made by the employee. There's some evidence that these programs have not been as effective as expected, providing relief to far fewer professionals than was predicted.

LOOKING AHEAD

A bill introduced in Congress in February would give a tax break to employees receiving a student loan benefit from their employer. The Employer Participation in Repayment Act was first introduced in 2017, but languished. Now reintroduced with strong bipartisan support, it exempts up to $5,250 annually in employer student loan contributions from an employee's taxable income.

Financial worries are a productivity drain.

Whether or not the bill advances, we see student loan repayment programs growing in popularity, despite their slow uptake in the past. In today's talent competition, a loan repayment program is a clear employer differentiator.

The low – or no – cost feature of the non-contributory programs make them highly economical, but when coupled with an employer contribution, they become a powerful recruitment tool and an even more valuable retention incentive.

At a minimum, now that the IRS has approved the practice, there's no good reason employers with a 401(k) program shouldn't adopt the Abbott Laboratories model. We recommend discussing this with your 401(k) administrator, negotiating to include student loan processing. Making it part of the service or as part of a comprehensive financial wellness program will ensure compliance with the legal requirements, as well as reassuring employees.

No matter what program is right for your business, it will be a plus for your employees.

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