

Commco Comments

Timely Information and Updates for Employers and Retirement Plan Sponsors

Employer Student Loan Repayment Assistance

Assistance with student loan debt is a benefit currently offered by only a small minority of employers – just four percent, according to the Society for Human Resource Management’s 2017 Employee Benefits survey report – but interest is growing.

With unemployment low and competition for talent fierce, employers are seeking ways to attract and retain employees and make their benefits packages stand out. The growing attention to student loan repayment assistance as a recruiting and retention tool comes as no surprise, considering:



- Total college loan debt in the US now exceeds 1.5 trillion dollars, with about 65% of that being owed by people under 40.
- The Congressional Budget Office estimates that another \$1.27 trillion in new federal student loans will be added by 2028.
- According to a survey by Willis Towers Watson, 74% of people with outstanding student loans feel debt-related stress daily and spend time at work thinking about it, impacting their overall productivity.
- According to a 2017 survey by American Student Assistance (ASA), 56% of young workers worry “all the time” or “often” about repaying their student loans, 54% are delaying planning for retirement due to the burden of their student loans, and 44% said they “have no idea” how they will ever repay their loans.
- The same survey found that 92% of young workers said they would take advantage of an employer match, like a 401(k) match, to help them repay their loans, and 86% said they would commit to an employer for five years if the employer helped to repay their loans.

So far, while interest is great, actual adoption of such programs has been slow. The significant potential expense is one of the primary obstacles. This is reflected in the rates of implementation being highest among large corporations that have the greatest budgets and small, tech-focused startups that have the greatest need to compete for highly skilled, generally younger employees. Additionally, some employers have concerns

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*What percent of
employers are currently
offering assistance with
student loan debt?*





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regarding the fairness of a benefit that may offer a significant compensation boost to employees with student loans and is not available to those without.

Student loan repayment assistance may be offered either within a qualified plan, such as a 401(k) that has been amended to allow for it, or as a separate benefit. A significant difference to the employee is taxation.

Benefits paid as a non-elective contribution within the umbrella of a qualified plan may receive favorable tax treatment. Alternatively, approaches such as Student Loan Repayment Plans (SLRP) allow employers to make principal payments directly to an employee's student loan servicer while the employee continues to make their regular payments. These plans do not receive preferential tax treatment -- any amount paid on an employee's behalf may be taxable to the employee and subject to employer payroll taxes. However, they can still save employees thousands of dollars in principal and interest and cut years from their loan durations.

Employers who wish to consider adding a student loan repayment benefit should consult their company's financial and tax advisors to consider the relative merits of after-tax and tax-deferred programs, along with other feasibility and plan design questions.

If you have questions about the options available for adding student loan repayment plans to your company's benefits package, email us at newsletter@thecommco.com.

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Sources: American Student Assistance; Society for Human Resource Management; Employee Benefit News.