Employers' Student Loan Assistance Tackles the College Debt Crisis

Relief measures let employers make pretax loan contributions, for now

By Lin Grensing-Pophal
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Student federal loan repayments—and interest on that debt—have been paused during the pandemic, thanks to federal COVID-19 relief legislation. As of October 2021, however, some 44 million borrowers who owe an estimated $1.7 trillion (https://fred.stlouisfed.org/series/SLOAS) will have to start repaying debt that has grown exponentially over the past decade and a half.

Many are ill-prepared to do so. That massive debt is causing consternation and concern not only for those who owe the money, but for their employers as well.

Employers recognize the emotional toll that employee debt can cause. That stress affects their mental health and their work performance—and organizational productivity.

For many students, the pandemic—and the switch to remote learning—did not reduce tuition costs (https://www.cnbc.com/2020/04/14/colleges-move-online-amid-coronavirus-but-forget-a-tuition-discount.html). Credit reporting firm Experian notes that in 2020 borrowers' student loan balances grew by 9 percent and total student debt increased by 12 percent (https://www.experian.com/blogs/ask-experian/state-of-student-loan-debt/).

"Student loan payments resume on Oct. 1, which will be a shock wave to millions of borrowers," said Will Sealy, co-founder and CEO at Summer, a company that helps borrowers track their student loans and enroll in repayment plans. "When you layer in the complexity of the pandemic, employees will face immense stress and high levels of loan defaults, leading to a financially at-risk workforce."

There's ample reason for employers to consider ways they could help employees minimize this burden and emerging opportunities for employers to do just that.

Opportunities for Student Debt Relief

A fall 2020 AIG Retirement Services survey, drawing responses from 664 public-sector employees who are repaying federal student loans, found that a significant number of respondents would otherwise use money spent on monthly student loan payments (https://www.lifeandretirement.aig.com/employers/lp/the-public-service-loan-forgiveness) for other financial responsibilities, such as contributing to retirement savings and investments (47 percent) or adding to their emergency savings fund (43 percent).

"Student loan debt has increasingly become a headline issue," said Rob Scheinerman, CEO at AIG Retirement Services. "It was a big topic in the last election cycle and continues to be a focus in Washington. There's a growing belief that student loan debt represents a financial crisis in the same way as concerns about our country's retirement savings."

The government has been taking steps to address this burgeoning issue, he noted:

- **The Setting Every Community Up for Retirement Enhancement (SECURE) Act,** signed into law at the end of 2019, allowed annual 529 plan withdrawals of up to $10,000 (www.shrm.org/resourcesandtools/hr-topics/benefits/pages/secure-act-alters-401k-compliance-landscape.aspx) to pay down student loans.
- **The Coronavirus Aid, Relief and Economic Security (CARES) Act,** which became law in March 2020, paused federal student loan payments through Sept. 30, 2021, and temporarily set the federal student loan interest rate to 0 percent. It also allowed employers to provide up to $5,250 in tax-exempt student loan repayment contributions through Dec. 31, 2020. Prior to the CARES Act, employer-provided tuition assistance up to $5,250 was tax exempt under Section 127 of the tax code but loan-repayment contributions were taxable.
- **The Consolidated Appropriations Act, 2021 (CAA),** passed at the end of 2020, extended the CARES Act student loan provisions (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/legislation-extends-student-loan-repayment-benefits-for-5-years.aspx) to allow employers to make tax-exempt loan-repayment contributions of up to $5,250 through 2025. Employers and loan holders are strongly advocating that Congress make tax-free employer contributions for student loan repayment a permanent benefit.

The Society for Human Resource Management (SHRM) "has long-advocated for the expansion of employer-provided education assistance to include student loan repayment as a tax-excluded benefit and was pleased to see the benefit extended through 2025," said Chatrane Birbal, vice president for public policy at SHRM.

"This benefit will provide some relief to employees who are currently repaying student loan debt and also gives employers more flexibility in the design of benefit offerings for recruitment and retention purposes," Birbal said.

Tuition Assistance and Loan-Repayment Benefits

More than half of employers offering a student loan benefit today also offer a tuition-reimbursement benefit, said Charounson (Char) Saintilus, founder and CEO of Stubenefits, which provides loan-repayment solutions for employers and employees.

Notably, he said, "in a tuition reimbursement program, a lump sum"—generally up to $5,250—"is paid to the employee, often yearly. Student loan benefit contributions are paid out in increments, a small low-risk investment for the employer if an employee were to leave suddenly."

He added, "some employers are wondering if they should replace their tuition reimbursement program with a student loan benefit. These two Section 127 plans serve different purposes, and we don't counsel employers to do this."

Focusing on Financial Wellness

"The now 15-month pause on student loan payments and the fact that millions will have to suddenly start paying again in October is unprecedented," said Aaron Smith, co-founder of Savi, a student-loan-repayment technology company. "Borrowers," he added, "are confused and worried for when the payment suspension ends. HR leaders ... can help educate employees and make sure they take full advantage of available programs when payments resume."

Savi and Student Debt Crisis, a student-debt advocacy nonprofit, polled 58,733 student loan borrowers last December on how they fared during the pandemic (https://www.bysavi.com/files/Student_Debt_COVID19_Report.pdf). Among the results:

- 52 percent of borrowers rated their financial wellness as poor or very poor since the COVID-19 pandemic began in March 2020. Only 21 percent rated their financial wellness as poor or very poor prior to the pandemic.
- Borrowers of color were disproportionately likely to report missing a rent or mortgage payment, experience food insecurity and homelessness, or be unable to afford health care and medicine during the pandemic due to their student loan payments.

The tax advantages offered through the CARES Act, extended by the CAA, have prompted more employers to look into offering a loan-repayment benefit, said Jennifer Nuckles, executive vice president and group business unit leader at loan refinancing firm SoFi.

Sealy said employers' interest is piqued not just because of the newly enacted tax relief for employer loan contributions, but for a broader reason: employee wellness. "We're hearing a lot of employers tell us [that] they're thinking about financial wellness now, more than ever before, because of the horror stories coming out of the pandemic," he said. Loss of work, pressure on family members, the burden of having to home-school or care for others—all have taken a toll.

Scheinerman also sees employers' interest in promoting financial wellness as a big driver behind more employers considering student-loan-related benefit offerings. Student loan debt, he pointed out, "is the number two type of debt in America—only lower than mortgage debt—and, for younger employees who are just beginning their careers, handling student loan debt is a top concern."

[Related SHRM article: Student Debt Debate Has Implications for Everyone (www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/Student-Debt-Debate-Has-Implications-for-Everyone.aspx)]

Employer Considerations

TekSynap, a tech company that provides information management services to government agencies, is an example of a company that has opted to offer student-loan-related assistance to employees. Their reasoning, said Ruben Hormostay, an HR specialist with the firm, is related to both attracting and retaining top talent.

The firm, through its plan with SoFi, will match employees' payroll-based student loan repayments up to $1,000 each year, or will match employees' contributions to a 529 college savings plan by the same amount, as part of the company's overall financial well-being benefits program (https://www.teksynap.com/wp-content/uploads/2020/10/TekSynap-Summary-of-Benefits.pdf).

The loan-repayment match option, which the company began offering in September 2018, allows TekSynap to "ensure the majority of employees reap the benefits of the firm's commitment to education and financial well-being for all employees, regardless of where they might be on their financial/educational journey," Hormostay said.

Hormostay's advice to other employers is "just do it!"

"I would recommend all companies try to implement this if and when budget allows," he said.

More employees will take advantage of the benefit if they understand and keep hearing about it.

"Continue to communicate about the benefit after an employee starts and allow for year-round enrollment," Hormostay advised. "Keeping the lines of communication open is key."

He also stresses the importance of ensuring that HR staff and management "are available and equipped with the information they need to answer questions."

SECURE Act 2.0—A Possible Game-Changer?

"Small employers that are hesitant about the cost of implementing and sustaining a student loan benefit are excited about the prospects of SECURE Act 2.0 (www.shrm.org/resourcesandtools/hr-topics/benefits/pages/congress-considers-a-new-round-of-retirement-legislation.aspx)," Saintilus at Stubenefits' said, referring to the bipartisan Securing a Strong Retirement Act, which was unanimously passed by the House Ways and Means Committee on May 5.

The legislation, among other things, would permit an employer to make tax-exempt contributions into an employee's 401(k) plan, 403(b) plan or SIMPLE IRA, to match the employee's payroll-deducted student loan payments. It would thereby "allow borrowers to save for retirement using tax-exempt employer contributions to their retirement account, while they simultaneously pay down their debt," Saintilus said.

"Some employers are waiting for the SECURE Act 2.0 to pass and are considering leveraging this option in a student loan benefit program," he noted.

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