5 Things to Think About Before Introducing a Student Debt Benefit

In 2018, Americans held a whopping $1.5 trillion in student loan debt, beating both the national auto and credit card debt rates. This number has grown exponentially in recent years, having an impact on all employees but arguably hitting the millennial generation hardest. As a result, employees are deferring home purchases and retirement savings due to their student loan obligations. In turn, this creates a challenge for employers working to recruit these employees, who are experiencing financial challenges and not at optimal productivity or engagement.

Realizing the potential strain on employees, employers have turned to their employee benefit offerings, which have long been used as attraction and retention tools, constantly evolving based on the diverse needs of employees and their dependents. Over the past few years, the line between employee benefits and employee perks has greyed, making room for vast offerings in the quest to be an employer of choice. Although the concept of employee perks was once viewed as an employee "want" as compared to an employee "need", that is no longer the case, especially as it relates to student debt relief. A 2018 survey by the American Institute of Certified Public Accountants (AICPA) found that student loan forgiveness was the third most desired employee benefit for millennials, only after health insurance and paid time off.

While student debt relief has been a hot HR topic of late, only about 6% of companies in 2018 are currently offering a related benefit (up from 4% in 2017), according to a 2018 World at Work survey, so this is still very much in the beginning stages of emergence and evolution. Given the broad interests in this benefit, we expect the number of employers that offer benefits in this area to continue to increase. Also note that a much higher percentage, about 15%, of larger employers are offering some type of student debt relief benefit according to this same survey. As employers begin to consider their strategy and program design around student debt relief, it is important to take a holistic view and avoid the pressure to implement a program that may not be a fit for their population. Employers should consider:

Strategic goal(s)

As with any significant program change or addition, your analysis should begin with corporate-level goals and how they might align, or misalign, with a student debt benefit. Questions you should be asking include:

- Is this an attraction tool, retention tool, or both?
- Who are you trying to recruit and/or retain (i.e. tenured employees, millennials, generation Z), and why?
- Is your organization focused on alleviating strain due to student debt, laying an educational foundation for long term financial independence and/or ensuring retirement goals are not sacrificed due to short term debt?

If you are aiming to protect a specific demographic, the eligibility provisions of your program will be critical. It may be structured for primary debt holders, co-singers, or both. Many programs are focused on the impact on retirement savings and the economy at large, using student debt relief programs as a way to not only assist in debt repayment, but more importantly to ensure that employees are not sacrificing long term retirement savings due to student debt.

These programs also increase employee morale and productivity by positively impacting stress levels and engagement.

Case Study

Abbott Laboratories realized that many employees were not taking advantage of their 401(k) match because they were paying down student loans and could not meet the requisite minimum percentage of compensation. Worried about employees' retirement savings, Abbott launched a program in 2018 that allocated the 401(k) match rate to all enrolled employees, as long as they were allocating at least 2% of each paycheck toward student loan debt.

Financial Wellness

Employees needing support to help manage their finances is not a new concept and is not specific to student loans. Financial wellness as part a robust benefits program should offer a holistic range of products and services, which could include a student loan debt relief program, along with financial planning and counseling services, a 401(k) plan, debt relief calculators, refinancing education and more. Whether an employee is bogged down by student debt, or anxious about their first home purchase, or confused about an investment strategy that makes sense for them, all employees will benefit from a suite of services centered around financial wellness.

Funding and Taxability

Even if an employer would like to offer student debt help to employees, many will struggle with funding. Programs typically have an annual maximum set at somewhere between \$2,000–\$6,000 per employee, which can be difficult to budget given the cost increases experienced in other benefit programs like health insurance, which grew 3%–5% more expensive from 2017–2018.[1]

Employers have found opportunities within their 401(k) allocation as demonstrated through the Private Letter Ruling for Abbott Laboratories; carryover PTO balances and using savings from alternative funding arrangements in the initial year. Utilizing these types of opportunities could result in relatively cost-neutral solutions.

It is critical that your organization model potential enrollment and consider the taxability of any debt relief program and its impact on potential participants. For employers considering PTO transfers, it is important to communicate to employees, who are already in financial strain, that they will be taxed on those "earnings", even though they will not actually be paid directly to the employee. When considering a PTO transfer program, employers should also consider the work/life balance implications that could develop should employees not utilize the PTO program as it was intended.

Administrative complexity

As with any benefit, one focused on loan relief will have varying degrees of complexity based on the structure you choose. Consider a readiness assessment related to the volume and timing of transactions, the staff impacted, and where and how employees will be supported as they work to navigate the new program.

The volume of transactions and frequency will be directly proportional to the internal administrative costs. Finding a suitable partner to administer the benefit can decrease the time required of your internal team but it will also increase the external spend and add a stakeholder to be considered in communications and program management. This must be considered in the total costs of the program.

When considering a business case for this type of offering, all costs including administrative fees and internal commitments are important. Often the benefit within your business case is related to decreased turnover, which translates into lower spend for training and recruitment. While difficult to quantify the ROI, it is

Ready?

As you weigh your options, make sure you consider:

1. Where will the money come from?
2. Who will administer, and how?
3. Will this benefit pass discrimination testing?
4. Will this be utilized by your employees?
5. Does this align with company goals and cultural values?
6. Are you in the clear with the IRS?

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[1] "Health Insurance: Premiums and Increases", *National Conference of State Legislates,*

http://www.ncsl.org/research/health/health-insurance-premiums.aspx important for the business case to include discussion related to the overall expected productivity increase by employees as they feel more secure about their personal finances, allowing them to be more focused on being productive at work.

In addition, some industries have broad workforce demographic challenges, where a significant percentage of employees could be eligible to retire over the next 5–10 years as an example. Offering additional benefits such as student debt relief could have a significant impact on a company's ability to recruit employees to help manage overall talent and skill sets needed.

Employee demographics

While the case can be made that a student debt relief benefit is too catered toward one demographic, the same case could be made about many benefits typically offered, such as maternity leave, caregiver leave, disability insurance, etc. There will always be benefits that don't pertain to every individual employee. The point should be looking at the big picture and ensuring that each employee can benefit from something. A student debt relief program would be just one piece of that puzzle. But before you roll anything out, make sure you have a deep understanding of your population in order to appropriately model potential rollout strategies and/or pilot programs. This will be critical because lack of planning can directly affect the program, up to and including the taxability impact based on your discrimination testing.

When it comes to student debt relief, it might be helpful to know in your demographic analysis that women hold almost double the student debt in the US than men, and that black women hold the most debt.[2]

Conclusion

Employers and employees are very interested in finding solutions to help curb the debt crisis within their population. This new perk of student debt relief is still in the early stages of design, but unless or until the IRS provides more guidance, employers will continue to evaluate programs that will work within the confines of the regulation and their specific organizations. It will be key, as this employee perk

[2] Stephen Miller, "Billionaires Paying Off Student Loans Isn't a Solution to Debt Problem", *Society for Human Resource Management,* https://www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/billionaire-pay-off-student-debt.aspx

evolves, to be cautious of the employer's decision to be agnostic, or not, to the type of debt. The current focus is on student debt relief for well-known reasons; but what caused the debt (i.e. student loans, mortgage, healthcare expenses) may or may not be significant. The question may simply be how to help your employees be as financially independent and informed as possible.

The bottom line is that financially strapped employees are vulnerable to a whole host of concerns. They are vulnerable to be recruited and job-hop; they are vulnerable to be unhappy or depressed; they are vulnerable to be distracted and lack motivation at work. If we can take those vulnerable employees and transition them to be more financially sound/autonomous employees, that will lead to a stronger and more productive workforce and, in turn, a more successful organization.