

# HOW EMPLOYERS CAN PROVIDE STUDENT LOAN REPAYMENT ASSISTANCE AS AN EMPLOYEE BENEFIT

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Although only 3% to 4% of employers currently provide some form of student loan repayment assistance to employees, this type of benefit is expected to gain more popularity among employers in the near future. Student loan repayment benefits will help employers recruit and retain talented employees, boost office morale, and ameliorate the impending student loan crisis.

## Why is student loan repayment assistance needed?

As the cost of higher education has skyrocketed over the last 40 years—the average cost of college tuition nationwide in 1980 was just \$3,449—crippling student loan debt has become a reality for an increasing number of graduates. Today, the average college graduate holds \$35,000 to \$40,000 in student loans and cannot reasonably expect to retire until the age of 72. Cumulatively, this translates to approximately 44 million Americans owing over \$1.5 trillion in student loans.

This debt already affects the consumption and lifestyle choices for many employees, including the decision to save for retirement. Employees are increasingly foregoing the opportunity to invest in employer-sponsored retirement savings plans and are failing to take advantage of many employers' "matching" contributions to 401(k) retirement sav-

ings plans. A Prudential Financial study shows that 40% of graduates who are paying student loan debt are not able to save for retirement. The Center for Retirement Research at Boston College produced a study that demonstrates that college graduates with student loan debt have 50% fewer retirement plan assets than graduates with no loans.

## Why should employers take action?

Student loan repayment assistance programs could impact which jobs graduates will take. Employees with student loan debt may prefer to work for an employer that provides this kind of benefit. American Student Assistance conducted a survey that shows about 80% of employees felt that a student loan repayment benefit would be a deciding factor in accepting a job; 86% felt that they would be compelled to stay with an employer for at least five years in exchange for loan repayment assistance.

With unemployment numbers at record lows, employers are competing in recruiting new employees, and retaining their current workforce. Offering this benefit may help companies stand out and attract student loan-saddled employees. In addition, it will assist employers in recruiting younger, more diverse employees, as student debt is disproportionately held by young people, women, and people of color.

Research suggests that this type of benefit will boost employee morale and, in turn, productivity. According

**Employers should consider developing a student loan repayment assistance benefit plan to best position themselves to recruit and retain talented employees.**

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to a survey conducted by Willis Towers Watson, 74% of employees surveyed say they feel stress regarding their student loans and that this stress affects their overall workplace productivity. By easing the burden of this debt on employees, employers could reap the benefits of a more focused and less-stressed workforce.

## How assistance plans currently work

Student loan repayment assistance plans generally provide some amount of money each month to employees who are paying student loans, with a maximum amount an employee can receive. Typically, an employer will contribute \$50 to \$200 per month to aid in the repayment of student loans, with a \$5,000 to \$10,000 cap per employee.

Another innovative approach to providing student loan repayment assistance has recently been approved by the IRS in Ltr. Rul. 201833012.<sup>1</sup> In this ruling, Abbott Laboratories (Abbott) developed an arrangement to help its employees paying student loans take advantage of the company's matching contributions to its 401(k) savings plan. Previously, Abbott only matched 5% of an employee's eligible compensation to a 401(k) retirement savings plan when an employee contributed at least 2% of his or her compensation to the savings plan. Employees paying student loans were generally unable to contribute to savings plans, and were therefore unable to receive Abbott's matching contribution. This essentially resulted in employees with student debt receiving less compensation than their loan-free counterparts.

Abbott's new benefit addresses this issue. Abbott now additionally contributes 5% of compensation into the savings plan for employees who spend at least 2% of their compensation on student loans, even if they do not make contributions into the savings plan. Abbott's approach, however, prohibits "double-dipping." While an employee may simultaneously spend 2% of his or her income to pay student debt and contribute 2% of his or her income to a savings plan, the employee will not receive a 10% match from the company. Instead, the employee will only receive one 5% match from Abbott during that period. This innovative benefit design allows employees with stu-

dent loans to pay down their loans without missing out on the employer matching contributions.

The IRS approved Abbott's arrangement.<sup>2</sup> While more guidance is needed before any variations of this type of approach would be advisable, this is an interesting strategy to help employees with student loans save for their retirement and receive the full benefits offered by their employer.<sup>3</sup>

## Conclusion; what the future holds

Currently, when employers provide a student loan benefit as a stipend, it is taxable for both the employer and the employee. While plans like Abbott's would provide pre-tax contributions to retirement savings plans, most other plans would not permit employees to take full advantage of the employer's stipend due to the taxes that would be deducted from the benefit. Congress may make these kinds of benefits, however, tax-free in the near future.

The Employer Participation in Student Loan Assistance Act (H.R. 795) was first introduced in the House of Representatives in 2017, and reintroduced in 2019. A similar bill, the Employer Participation in Repayment Act of 2019 (S. 460), was introduced in the Senate in 2019 as well. These bills aim to make student loan repayment assistance tax-free for employers. This would allow employees to wholly realize the benefits of the employer's aid.

In addition, two bills, one in the House and the other in the Senate, have been introduced in 2019 to ease the tax burden on employers contributing to employee student loan payments. The Student Loan Repayment Assistance Act of 2019 (H.R. 655) would provide a business-related tax credit for certain payments made by an employer to a student loan repayment program on behalf of its employees. The Retirement Parity for Student Loans Act (S. 1428) was reintroduced by Senator Ron Wyden on 5/13/19. This bill would permit the treatment of student loan payments as elective deferrals for the purposes of receiving employer matching contributions in the plan on a tax-deferred basis—thus allowing workers who cannot afford to make their own contributions into a retirement plan while they are paying off their student loan debt to still receive employer contributions to save for retirement.

It appears that more and more employers, including PricewaterhouseCoopers, Fidelity, Abbott, Penguin Random House, and others have already adopted a variation on this type of benefit plan. Fidelity, for instance, offers its employees with student loans up to \$2,000 per year, with a lifetime cap of \$10,000, to aid in the repayment of such loans. Employers should consider developing their own student loan repayment assistance benefit to best position themselves to recruit and retain the best talent in the future. ■

<sup>1</sup> The private letter ruling, issued on 8/17/18, is only applicable to the taxpayer requesting the review; it cannot be relied on as precedent or as binding by anyone else.

<sup>2</sup> See Section 401(k)(4).

<sup>3</sup> See *Student Loan Repayment Programs: Outstanding Issues*, OCTOBER THREE, (1/22/19), <http://www.octoberthree.com/student-loan-repayment-programs-outstanding-issues/> (detailing the issues that persist in the wake of the letter ruling, and a potential solution), and see Daugherty and Hanft, "IRS Letter Ruling Generates Interest in Employer Student Loan Benefit Plans, But Be Aware of Testing and Other Issues," *EMPLOYEE BENEFITS LAW REPORT* (10/4/18), <https://www.employeebenefitslawreport.com/2018/10/irs-letter-ruling-generates-interest-in-employer-student-loan-benefit-plans-but-be-aware-of-testing-and-other-issues/> (explaining the additional guidance needed from the IRS before widespread adoption of Abbott's plan is plausible).