Student Loan Benefits: Approaches, Considerations and the Steps to Launch an Offering

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The subject of student loan benefits continues to be at the forefront of conversations when it comes to the overall financial wellbeing of an individual or group. With numerous options and providers offering programs, organizations are considering which approach is right for them.

Considering that almost $1.6 trillion in U.S. student loan debt is being held by 45 million Americans, employees will unquestionably be bringing the stress of higher debt specific to education to the workplace for many years to come. In 2018, 69% of new graduates took out student loans and graduated with an average debt of $29,800. In addition, 14% of their parents took out an average of $35,600 in federal Parent PLUS loans, reflecting a multigenerational issue.[1]

With the necessity for a solution established, organizations of all industries and sizes are asking, "What type of approach is right for our organization and how do we get started?" Depending on the commitment an employer is willing and able to make while balancing all benefit considerations, there are two primary approaches and a few expanded options an organization should consider.

Approach 1: Refinance, Education and Forgiveness Programs

Even with interest rates at historical lows, the average monthly payment has increased by 60% from 2005 through 2016. In 2016, graduates left school paying an average of $393 per month in student loan benefits. With costs rising, the delinquency rate of student loans is now higher than auto loans, credit cards and mortgages. In 2019, 10.85% of student loans were 90 days or more overdue.[2] The first, and least costly, approach focuses on addressing these issues through voluntary refinancing and coaching for employees.

By partnering with a student loan benefit provider, employees have the option to evaluate whether refinancing their student loans would be beneficial, whether that be through lower interest rates, lower monthly payments or more favorable repayment terms. In addition, they can work directly with a student loan coach to understand their repayment options, which can include income-based repayment plans, government forgiveness programs or partial refinancing. This approach functions very similarly to a classic voluntary benefit (similar to life, accident or even pet insurance) in that there is very little cost to the employer or employee. The selected partner may charge a direct fee to offer the platform, or they may be compensated based on the number of or amount in loans refinanced. This type of offering can benefit employees with student loan debt, parents with Parent PLUS loans and family members of employees with debt.

When evaluating a student loan provider, organizations should consider the number of lenders available, engagement with employees, loan underwriting standards relative to their workforce, employee incentives (e.g., lower interest rates through the employer offering), or cash and the vendor's ability to grow with the program if an organization chooses to expand it as detailed in the subsequent approaches. In addition, some providers offer unique services focused on specific student loan restructuring options. For example, nonprofit or government

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[1] Source: Student Loan Hero via the U.S. Federal Reserve and Federal Reserve Bank of New York, https://studentloanhero.com/student-loan-debt-statistics/.

[2] www.credit.com/personal-finance/average-student-loan-debt/

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organizations will want to consider the provider's ability to offer support for federal loan forgiveness programs, such as Public Service Loan Forgiveness. Providers without specific knowledge of these complex programs could steer employees in directions that prohibit future eligibility for these beneficial programs.

Approach 2: Student Loan Employer Contribution

While many employers are starting their program with approach 1, several others have introduced approach 2, providing eligible employees with a contribution to the principal amount of their student loan. By making a contribution to the principal amount of the student loan, the debt is paid back much faster, and in many cases, years in advance of the typical loan repayment. This allows the employee to begin focusing on alternate financial goals much sooner.

Similar to approach 1, this approach would benefit employees with student loan debt (as well as employees with Parent PLUS loans, if made eligible). Because an employer student loan contribution program is not a qualified plan, the organization can decide who is eligible, making this an opportunity for the employer to align design with their business objectives. Some organizations choose specific positions, tenure or even geographic locations. In addition to eligibility, the organization must also determine the appropriate benefit amount and structure (e.g., monthly, annual or one-time contribution.)

BUSINESS OBJECTIVE	POLICY DESIGN
Increasing the talent pool in a particular specialty	Offer student loan repayment only for degrees relevant to that discipline
Reducing turnover for experienced employees	Increase loan contributions over time
Attracting young employees to replace retirees	Limit the program to those with degrees earned in the past five years

On top of the consideration details in approach 1, evaluating a provider for approach 2 includes the ability to assist with and administer the established plan design, cost of administration, reporting and measurement of success metrics, and the account team structure. This choice would come with the cost of the employer contribution, as well as the cost of the platform and administration fees. While this option requires a higher financial commitment from the employer, it is often described as a very high-value benefit from an employee's perspective. It's important to note that this type of contribution is considered taxable income to the employee. For organizations where employees are utilizing federal loan forgiveness programs, offering additional contributions may not be beneficial to employees, as loans will ultimately be forgiven. Thus, working with a provider who can offer cash flow options for student loan payments should be a consideration.

Expanded Approach for Education Financing

A common question for organizations is whether offering a benefit that impacts only a portion of their employees fits into their benefits philosophy. For this reason, along with the pressure of ever-increasing education costs and expectations, some organizations are considering an expansion of their programs to include a 529 college savings contribution

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and planning support. Since 1971, higher education costs have increased 145% while median household income has only increased 28%.3 This offering may allow employees the opportunity to contribute to a state-sponsored 529 plan through payroll deductions. Similar to approach 2, the costs for this approach include the cost of the employer contribution as well as the cost of the platform and administration fees. With many more employees becoming eligible for the 529 contribution, the cost impact can be quite significant.

Alternate Approaches

Some employers want to provide a more flexible benefit to their employees and have opted for creative plan designs. It's important to note that while these plan designs may offer greater flexibility and drive engagement in a more direct manner, they are often far more expensive than a traditional approach, require a large amount of employer administration and/or are inherently riskier due to the current legislative environment. Two of the most publicized alternate approaches employers may want to consider are obtaining a private letter ruling or allowing employees to trade in paid time off.

Alternate Approaches: Employer 401(k) Contribution for Student Loans

With student loan contributions being an after-tax benefit, a portion of the benefit is consumed by taxes. Therefore, some organizations have sought to provide a retirement plan contribution to employees conditioned on making certain student loan payments. This approach has received significant attention due to the release of an IRS private letter ruling. Specific to the program detailed in the private letter ruling, participants in their 401(k) plan are eligible to receive an employer contribution (classified as a nonelective contribution) that mimics their employer matching contribution formula if they make a payment to their student loan as a stated percent of their salary. Under this plan design, the employee can only receive one type of employer contribution, not both. It's important to note that the plan that received the private letter ruling is a large plan with nearly 30,000 participants and more than $6 billion in assets. This scale can be important, as an organization interested in executing a similar program would need to consult with ERISA counsel to determine if their own IRS private letter ruling is required, which would increase employer costs. Plan sponsors should note that the private letter ruling process can be both lengthy and costly. Additionally, many preapproved or prototype plans may not currently be set up to allow for such a design, so a shift to a custom plan document would be needed. Depending on plan size and design, moving to a custom plan document can limit record-keeper access, increase costs of administration and/or limit services available. Lastly, administration for this approach would likely require a third-party vendor to track student loan payments to confirm the stated conditions are met.

While this is a viable option in certain situations, employers may want to consider the two approaches previously introduced due to their ability to be implemented outside of their qualified 401(k) plan.

[3] https://www.credit.com/personal-finance/average-student-loan-debt/

Employers should define their success metrics so that they can best target their investments to help their employees achieve better financial wellbeing while also achieving their organizational goals.

Alternate Approaches: Paid Time Off Trade-In

This option allows employees to transfer hours of vacation or PTO into a payment against their student debt. Employers offering this approach point to the flexibility of the program to grant employees the ability to customize and control how they want to spend their dollars. While the flexibility is compelling, several factors need to be considered, including the administrative burden that comes with employee selections, state and federal tax and employment law, and varying definitions of compensation to value time off.

Steps to Launch a Student Loan Benefit

Step 1: Understand and Consider the Approach for Your Organization

Stress from student loan debt is affecting employee health, which, in turn, is impacting workforce engagement and performance. Yet every organization is different and faces unique challenges. Conducting an evaluation of an organization's workforce is a key step in identifying the benefits that are working well and areas where they could be better. The data uncovered during the evaluation will help organizations gain a clear understanding of the spending and saving habits of employees—such as how many are carrying student loan debt and who is or isn't contributing to the company's 401(k) plan—and help determine the approach that's right for the organization.

Step 2: Finalize Program Design, and Determine Program Goals and Success Measures

Employers should define their success metrics so that they can best target their investments to help their employees achieve better financial wellbeing while also achieving their organizational goals. Organizations should ask, "What metrics are we trying to improve by implementing this program?"

OBJECTIVE	SAMPLE METRICS
Talent Acquisition	• Vacancy rate/open positions • Time to fill • Offer accept/decline rates • Number of recent graduates hired
Talent Retention	• Overall retention rate • Voluntary turnover rate • Retention of new graduates • Retention for identified high-value talent
Cost Management	• Cost to fill (recruiting costs) • Total replacement costs for experienced employees • Expenses for signing bonuses • Impact of unfilled roles on customer service
Engagement and Productivity	• Number of employees indicating student debt is a stressor • Financial wellness metrics • Employee engagement metrics
Talent Development	• Increased participation in tuition assistance programs • Faster rate of internal mobility among participants

Step 3: Select a Student Loan Benefit Provider

Many retirement plan record-keepers have partnerships with student loan vendors or have the ability to administer a student loan benefit themselves. Employers should start by taking an inventory of the access they may already have to student loan benefit services through their record-keeper (or other service providers) and weigh the options of expanding their relationship with an existing provider or adding a new one to administer their student loan benefit.

Step 4: Implementation and Communication

Communication is vital to the success of any employee benefit, but even more so when you are launching a benefit getting a great deal of attention in today's headlines as a major society concern. Employers should offer a clear value proposition to the employee, use targeted communications and empower their leaders to have conversations about the benefit.

Step 5: Ongoing Monitoring, Reporting and Evolution

Employers will gain valuable data regarding the amount of student loan debt and overall financial stress in their workforce when they deploy this benefit. The most successful student loan benefit programs use this data to adjust their strategies, target at-risk groups of employees and market it as an attraction tool. The provider market and legislative environment will continue to evolve, and employers will need to work closely with their providers to correctly administer this benefit.

Leveraging Gallagher's Expertise and Vendor Relationships

Gallagher maintains a market scan of student loan benefit providers. Additionally, Gallagher has entered into preferred partnership arrangements with several providers based on their ability to deliver successful offerings to organizations. Gallagher believes a provider's ability to administer a variety of student loan plan designs, and offer fair interest rates and top education tools, as well as its knowledge of the legislative space, are large components of each employer's decision, and has considered these elements upon selection of providers.

Gallagher professionals are equipped to handle each of the approaches described in this whitepaper, as well as additional creative methods of funding and providing student loan benefits to your employees. We continue to evaluate new approaches and vendors in this continually growing space.

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About the authors.

Scott Sherman, ASA, MAAA, is an area vice president in Gallagher's Retirement Plan Consulting practice. Scott focuses exclusively on employer-sponsored retirement and financial programs. His plans range from $10 million to over $1 billion in plan assets. His all-inclusive consulting approach to retirement plan management includes fiduciary plan governance and compliance, fiduciary investment consulting, service provider management and oversight, and plan administration enhancement as well as employee financial wellbeing. Scott works with both ERISA and non-ERISA retirement programs, providing clients with best practices for mitigating the risk of offering a retirement program. He also participates in industry groups, advisory roundtables, and speaking opportunities on a range of retirement and financial topics. These efforts allow him to bring innovative ideas to clients to solve unique challenges. Recently, Scott worked with the Academy of Actuaries' Lifetime Income Task Force, which focuses on solving participant retirement income challenges within retirement plans. He also continues to lead Gallagher's efforts within the student loan benefit space. He created Gallagher's national market scan and helped establish many of Gallagher's provider partnerships.

Hannah Johnstone is an integral part of the larger Wellbeing & Engagement team. As a financial wellbeing consultant, Hannah works to connect the financial stressors of each individual employee to their personal health as well as that of the overall health of the organization. Hannah closely monitors the financial wellness provider marketplace, uses that data to advise her clients on an appropriate selection, designs a financial wellbeing strategy, and implements the program alongside Gallagher's team. Hannah's passion for building financial resiliency at the individual level allows her to provide a unique perspective at the employer level. Gallagher strives to bring the resources that "meet employees where they are" on the financial journey, and Hannah individualizes this process so that employers can see positive changes in their workforce at the end of the day.

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