EDUCATION FINANCING: APPROACHES, CONSIDERATIONS, AND THE STEPS TO LAUNCH AN EDUCATION FINANCING OFFERING

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By Kelly Lazzara, J.D., Senior Compliance Counsel, and
Hannah Johnstone, Financial Wellbeing Consultant

When it comes to the overall financial wellbeing of an individual or group, the subject of student loan benefits continues to be at the forefront of conversations. With heightened employee financial stress, legislative updates, and a seemingly endless supply of providers, employers are considering which education financing approach is right for their organization.

At least $1.6 trillion in U.S. student loan debt is being held by 45 million Americans, and that number is only growing as 2021 high school graduates are expected to borrow $38,147 for their bachelor's degree. Unquestionably, employees will be bringing the stress of higher student debt to the workplace for many years to come. In 2021, new college graduates were faced with an average monthly payment of $393. Additionally, 3.6 million parents of college graduates took out an average of $28,788 in federal Parent PLUS loans, confirming that student loan debt is a multigenerational issue.[1]

Recent market volatility, legislative changes and lifestyle shifts are increasing the financial strain on employees. Financial confidence is down and financial stress continues to rise. Eighty-four percent of American workers state, "I am more focused on becoming financially independent than on traditional retirement."[2] Employers are implementing solutions that ultimately enable retirement saving by relieving financial stress today, and lessening the burden of education debt is a proven method.

With the necessity for a solution to build financial stability, 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 and the needs of its employees, while balancing all benefit considerations, there are two primary approaches employers can use to address student loan debt, as well a few expanded approaches an organization should consider.

Pre-Approach: Set Your Employees Up for Success

Similar to managing credit card debt, a mortgage, or any other large purchase, the goal is to minimize the amount of debt accumulated. Employers expanding their financial wellbeing offering should start here to help employees and their dependents make prudent choices around education financing and debt from the start. The goal of the pre-approach would be to provide student debt education and support tools before the education debt is incurred.

Guidance and coaching on education decisions and implications is essential. Employees seeking information about their education debt have access to federal and state solutions, scholarships, education savings accounts like a 529, and specific resources owned by the education institution the student is considering. Before taking on debt for themselves or a loved one, employees should use the available guidance and coaching options to evaluate the financial impact of the education program being considered, but oftentimes the hurdle is navigating these options.

Benefits-decisions support tools are popular because they simplify an intimidating process for employees. Guiding an employee in the education decision-making process, which can include the cost-benefit analysis of one college or another as well as funding options, is similar in that an employer's goal should be to make employees aware of all options available to them and help employees evaluate those options according to their own lifestyle needs like household income, other financial commitments, earnings potential, etc. So, instead of leaving an employee to wade through the publicly available student debt resources, some employers offer support. Employers may do this by offering static, targeted education and communication like webinars, videos or checklists. However, employers looking to focus on personalized guidance opt for financial coaching solutions. In many cases, offering a holistic financial coaching solution and platform allows employees to receive guidance on their specific educational program and debt decisions, while also addressing their day-to-day budget, retirement progress, or even medical spending.

When considering a financial coaching solution, employers should prioritize on-demand, qualified coaches, an interactive learning platform, and student debt specific guidance. When implemented correctly, this type of education and coaching complements a student loan benefit and enables employees to engage with other benefits like a retirement plan or health savings account more productively as part of a broader financial wellbeing strategy. This approach can benefit all employees.

[1]**Source:** https://www.nerdwallet.com/article/loans/student-loans/student-loan-debt
[2]**Source:** Franklin Templeton's Voice of the American Worker Survey

Approach 1: Refinance, Restructuring and Forgiveness Programs

While the CARES Act introduced provisions to temporarily lighten the student loan debt burden, the CARES Act student loan repayment relief or employer loan payments is not a long-term solution ridding employees of their debt. With costs rising, the delinquency rate of student loans is now higher than auto loans, credit cards and mortgages. Federal student debt payments are expected to resume on August 31, 2022, and if the U.S. Department of Education does not extend this, many individuals will find themselves unprepared. This first approach focuses on addressing these issues through voluntary refinancing, consolidation, and leveraging federal programs. It is likely the least costly approach from an employer perspective.

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, employees may have access to a student loan coach to understand their repayment options, which can include income based repayment plans, governmental 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 provider may charge a direct fee to offer the platform or they may be compensated based on the number or amount of loans refinanced. This type of offering can benefit employees with student loan debt, parents with Parent PLUS loans, as well as 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 your workforce
- Employee incentives (e.g., lower interest rates through the employer offering or cash bonuses)
- The partner's ability to grow with your program if you choose to expand as detailed in the subsequent approaches

In addition, some providers offer unique services focused on specific student loan restructuring options. For example, nonprofit or governmental organizations will want to consider the provider's ability to provide support for federal loan forgiveness programs, such as Public Service Loan Forgiveness (PSLF).

Organizations identified as "Qualified Employers" under the PSLF federal loan forgiveness guidelines should tailor their program to ensure employees are taking advantage of these programs and staying on top of legislative updates. These programs are widely known for their complexity with only about 2.5% of employees receiving forgiveness. Providers without specific knowledge of these complex programs could steer employees in a direction that prohibits future eligibility for these beneficial programs.

On October 6, 2021, the U.S. Department of Education announced a limited PSLF waiver that allows all payments by student borrowers to count toward PSLF, regardless of loan program or payment plan. Under this change, borrowers may receive credit for past periods of repayment that would otherwise not qualify for PSLF, which can expand the employees eligible for PSLF loan forgiveness. To receive these benefits, borrowers will have to submit a PSLF form by October 31, 2022, which is a single application used to certify employment and evaluate a borrower for forgiveness. Employers can act quickly, now, to engage a provider to help employees understand and leverage this limited time change and to determine how to qualify in addition to the ongoing PSLF requirements.

Approach 2: Student Loan Employer Contribution

While many employers are starting their education financing 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 enables the employee to begin focusing on alternate financial goals, such as saving for retirement, much sooner.

In compliance with IRC Section 127

In the past, employers' contributions to employees' student debt were treated as a taxable benefit. The CARES Act gave employers the option to provide tax-free payments on their employees' student loans for a limited time. Originally, this provision was set to expire at the end of 2020, but has been extended through 2025. Today, the employer making the repayment of student debt can deduct the payment, up to the $5,250 limit. The employee receiving the payment will not include it in their taxable income.

Employers who wish to take advantage of this benefit need to:

- Expand or adopt an IRC Section 127 education assistance program
- Have a written education assistance program plan document detailing eligibility, expenses covered, administration, etc.
- Ensure non-discrimination in favor of highly compensated employees
- Provide reasonable notification of availability
- Understand they may need to forego plan design options that provide employees with a choice between educational assistance benefits and other taxable income (bonus, PTO cash-out, cafeteria plan)

Originally, before the CARES Act, IRC Section 127, allowed for education assistance programs for employees, such as tuition reimbursement programs. Many employers still leverage the IRC Section 127 plan to provide education assistance in the form of tuition reimbursement or have shifted entirely to student loan repayments. Some employers have added the student loan repayment feature in addition to or as an option to the tuition reimbursement, so the employee can leverage how to best use the education assistance benefit to suit their needs up to the IRS limits.

Outside of IRC Section 127

Employers also have the option to structure a student loan contribution program outside of IRC Section 127. This allows the organization to exercise more freedom around employee eligibility, but will forego the tax benefits for both the employer and the employee, thus making this a taxable benefit to the employee. However, the absence of non-discrimination testing can be an opportunity for employers to align the design with their business objectives relating to specific pockets of the population.

Regardless of the program's structure relating to taxes, business objectives and policy design options are endless. 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 EXAMPLE
Increasing or maintaining 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

If an employer is considering engaging a provider for approach 2, the same considerations remain relevant as engaging a provider under approach 1. Employers should evaluate a provider's ability to assist with and administer the established plan design, cost of administration, reporting and measurement of success metrics, and the account team structure. Making a decision about a provider would consider the cost of the employer contribution, as well as the cost of the platform and administration fees. While engaging a provider requires a higher financial commitment from the employer, it is often described as a very high value benefit from the employee's perspective.

Organizations maintaining a workforce of employees utilizing federal loan forgiveness programs should note offering additional contributions may not be beneficial to the employee as loans will ultimately be forgiven. Thus, working with a provider who can offer a cash flow option for student loan payments should be the primary consideration.

Expanded Approach 2: Employer IRC Section 529 Contributions

A common question for organizations is whether offering a benefit that impacts only a portion of the organization, such as those who have student loans, fits within their benefits philosophy. For this reason—along with the pressure of ever increasing education cost and expectations—some organizations are considering an expansion of their program from just student loan repayments to include a 529 college savings contribution and planning support.

Since 1971, higher education costs have increased 145% while median household income has only increased 28%.[3] This offering may also 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.

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

ALTERNATE APPROACHES

Some employers wish 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 carry a higher level of risk due to the current legislative environment. Employers contemplating this benefit due to the tax benefit should consider the potential trade-off between the ability to leverage the tax benefit or craft a highly customized, strategic plan design. Typically, they are not mutually exclusive. Two of the most publicized alternate approaches employers may want to explore include making a contribution to a qualified retirement plan based upon student loan repayments made by the participant or allowing employees to trade-in paid time off.

Employer 401(k) Contribution for Student Loans

With student loan contributions previously being an after-tax benefit, some organizations 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 non-elective 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, 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, standardized pre-approved plans are not setup to allow for such a design and therefore, a shift to a non-standardized plan document would be needed. Depending on plan size and design, moving to a custom plan document can limit recordkeeper access, increase costs of administration, and/or limit services available. Finally, 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 and allow for organization and employee tax benefits.

Paid Time-off Trade-in

This option allows employees to transfer hours of vacation or PTO into a payment against their student loan debt. Many of the same providers who administer a standard student loan contribution can also administer this type of plan design. It's important to identity this capability in a partner search. Employers offering this approach point to the flexibility of the program to grant employees the ability to individualize 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: Evaluate Workforce Needs and Holistic Financial Wellbeing Education

Stress from student loan debt is affecting employee health which, in turn, is impacting workforce engagement and performance. 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. Plan design and approach should balance workforce needs and budgetary constraints.

At this point an employer should consider the aforementioned "pre-approach." Are there other pressing financial needs in the population? What financial stressors, if any, need to be conquered in tandem with student debt management? This is an opportunity to inventory and maximize current resources, as well as consider broader financial coaching solutions.

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

Employers should define their success metrics upfront, allowing them to target their investment to help their employees achieve better financial wellbeing while also advancing their organizational goals. Organizations should ask, “What metrics am I 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	• No. of employees indicating student debt is a stressor • Financial wellness metrics • Employee engagement metrics
Talent Development	• Increased participation in tuition assistance program • Faster rate of internal mobility among participants

Step 3: Select a Student Loan Benefit Provider or Develop Internal Infrastructure

Many retirement plan recordkeepers have partnerships with student loan benefit vendors or have the ability to administer a student loan benefit themselves. Employers should start by inventorying the student loan vendors and service that are available to their recordkeepers and weigh the options of expanding their relationship with an existing provider against adding a new one to administer their student loan benefit. If joint administration of tuition reimbursement or 529 contributions is desired, providers with these capabilities should be prioritized.

Gallagher conducts ongoing research of the student loan benefit provider market as well as an in-depth inventory of top recordkeeper financial wellbeing solutions, including student loan benefit administration. Gallagher believes the ability to administer a variety of student loan plan designs, offer fair interest rates, top education tools, and the provider’s knowledge of the legislative space are large components to each employer’s decision and will work with you to identify a best-fit provider that delivers on these elements.

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 working towards a near-term implementation are frequently positioning the benefit as a response to a) federal (and in some cases private) student debt payments resuming, and b) shifting lifestyle needs in the wake of the pandemic. Employers should have a clear value proposition to the employee, use targeted communications, and empower their leaders to have conversations about the benefit. In the end, integrating the benefit as a necessary aspect of the organization’s total wellbeing program will drive true, sustainable engagement.

Step 5: Ongoing Monitoring, Reporting and Evolution

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

Final Note on Gallagher

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, vendors, and legislation in this continually growing space. In response to our client's needs and demands, we have financial wellbeing consultants who help clients navigate this area and evaluate the right approach for organizations, and we have launched Gallagher Money Coaching in response to client needs for more holistic, personalized financial wellbeing solutions as detailed in the "pre-approach."

Gallagher Money Coaching is a financial problem-solving tool for employees carrying any variety of stressors. Employees have access to an interactive dashboard, learning tools, live events, and unlimited access to financial coaching. When offered in tandem with a retirement plan or education financing benefit, an employer is able to build financial stability across the full spectrum of an employee's lifestyle.

FREQUENTLY ASKED QUESTIONS

Question: How can I offer a benefit like this that helps everyone, with or without student loan debt?

Answer: Consider the outlined pre-approach section. A holistic financial wellbeing solution, equipped with qualified coaches, allows employees to have access to education and support on any financial decision from buying a car to selecting a graduate school program and income-driven repayment plan. Gallagher Money Coaching incorporates an interactive platform, on-demand coaching, and PSLF-specific tools to accommodate as many employees as possible.

Question: If the new administration forgives student loans, is this benefit relevant at all?

Answer: This topic will likely take time for Congress to take action on, if they do at all. Observers predict any forgiveness strategy would most likely be $10,000 to those holding federal loans in lower income brackets. With average student debt close to $36,000, this will still leave a great deal of debt burden on the table.

Question: If we implement this, do we have to do non-discrimination testing?

Answer: Yes. Pre-tax status under section 127 means that you will need to have a formal Education Assistance Plan in place and complete annual testing. Many providers will assist with this process.

Question: How can we make it more affordable?

Answer: Many employers are considering plan designs that aim to reallocate budgeted dollars. PTO conversion plan designs are topping the list as many have unused days due to the pandemic. It's also worth noting that for a very low cost, or free in some cases, employers can go the route of providing employees with an education financing and financial wellness platform that includes one-on-one coaching, refinancing opportunities, and strategy tools relating to their student debt and that of their family.

Kelly Lazzara, J.D.

About the Authors

Kelly Lazzara, J.D., is a senior compliance counsel in Gallagher's Retirement Plan Consulting practice. She is responsible for helping retirement plan sponsors deploy fiduciary best practices, mitigate compliance issues, and navigate the evolving regulatory and legislative landscape.

Hannah Johnstone

Hannah Johnstone is a financial wellbeing consultant in Gallagher's Retirement Plan Consulting practice. Hannah focuses on developing strategies with employers to confront the financial stress burden of their employees in a way that complements their retirement plan and larger organizational wellbeing strategy.

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