Student Loan Benefits: Approaches, Considerations, and the IRS Private Letter Ruling.

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. This topic has been trending in recent years, but with the recent release of the IRS Private Letter Ruling 201833012, it has gained even more attention.

Considering that almost $1.5 trillion in U.S. student loan debt is being held by 44.2 million Americans[1], employees will unquestionably be bringing the stress of higher debt specific to education to the workplace for many years to come.

With the necessity for a solution established, many organizations are asking, "What type of approach is right for our organization?" Depending on the commitment an employer is willing and able to make while balancing all benefit considerations, there are four general approaches an organization should consider.

Approach 1: Refinance and Education.

The first, and least costly, approach is providing voluntary refinancing and education to employees. By partnering with a student loan refinance partner, employees have the option to evaluate whether refinancing their student loans would be beneficial, whether that be through lower interest rates, lower payments or more favorable repayment terms. Many refinance partners provide access to both digital tools as well as counselors to educate employees on their options. 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 and the partner is compensated based on the product sold, or in this case, if loans are refinanced. This type of offering can benefit employees with student loan debt and, with some partners, the family members of an employee.

Considerations in evaluating a vendor include 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

[1] Source: Student Loan Hero; https://studentloanhero.com/student-loan-debt-statistics/

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bonuses), as well as the partners ability to grow with your program if you choose to expand as detailed in the subsequent approaches.

Approach 2: "Traditional" 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. Some organizations choose specific positions, tenure, or even geographic locations. In addition to who is eligible, the organization must also determine the appropriate benefit amount and structure, e.g. monthly, annual or one-time contribution.

On top of the consideration details in approach 1, evaluating a partner for approach 2 includes the ability to assist with and administer the established plan design, cost of administration, reporting, and 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.

Approach 3: 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 as of late due to the recent 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 when taking into consideration the ability of an organization to implement a similar structure. First, organizations 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 can increase employer costs. Additionally, many pre-approved prototype plans may not currently be setup to allow for such a design and therefore, a shift to a custom plan document may 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.

While many believe that Gen X and millennials carry the greatest burden, student loan debt for adults aged 60 years and older has quadrupled over the last decade.

Consumer Financial Protection Bureau, "Snapshot of older consumers and student loan debt," January 2017

Approach 4: Expanded Education Financing.

Organizations seeking to impact a broader portion of their workforce may want to consider expanding their program from the first two approaches (refinance, education and employer student loan contributions) to include a 529 college savings contribution. This offering allows 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. Some organizations have considered coupling approach 4 with the option to reduce other after-tax benefits, creating a financial flex benefit for employees at each life stage.

Which Approach Makes Sense 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.

Gallagher professionals are equipped to handle each of the four approaches described in this whitepaper as well as additional creative methods of funding and providing student loan benefits to your employees. We recently conducted our 2018 National Market Scan for all student loan vendors and continue to evaluate new approaches and vendors in this continually growing space.

About the Author.

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