PLAN SPONSOR ACADEMY

Ways Employers Can Deal with Employee Student Loan Debt

Overview

Student debt has increased dramatically in recent years, creating a financial burden on employees' ability to save for retirement. Many employers have begun implementing programs to help employees manage student loan debt.

Millennials (and their families) are often burdened with significant student loan debt. More than 70 million millennials make up 50% of today's workforce, and that number is growing. Also, many older workers in the "sandwich generation" are saving for their children's college. Both of these scenarios provide opportunities for employers to design programs that help employees reduce their financial stress (which often affects productivity), as well as make the company more attractive to talented candidates.

There are two approaches employers can consider for providing student debt repayment support: offering programs through their existing retirement plan, or through non-ERISA methods. While using a retirement plan is a new option that is still evolving, both approaches may be available to certain employers. However, each method has its own advantages and disadvantages.

ERISA-Based Through Retirement Plan

Before 2019, programs to relieve financial stress did not offer tax benefits to employees. However, a recent IRS Private Letter Ruling allowing a major employer to add loan repayment benefits to its 401(k) plan has expanded interest in this approach. While the ruling only applies to the company that requested it, Innovative has consulted with our ERISA counsel as well as qualified plan auditors and believes employers can add student loan benefits to existing plans as long as the plan continues to meet ERISA guidelines.

Under an ERISA-based solution, employers would make retirement plan contributions linked to the amount of the employee's student loan payments. For example, if employees pay two percent of their salary for student loan debt during the year, they may get a matching retirement plan contribution of five percent. This approach does not directly pay off that debt, but it does help employees save for retirement while paying off their loans. This strategy can also be provided to parents who are paying off their children's college debt.

There are several factors plan sponsors should consider when evaluating adding a student debt feature to their existing qualified retirement plan, particularly as it relates to plan compliance.

- The employer contribution for student debt is subject to the same requirements as other retirement contributions (vesting, eligibility, etc.).
- Repayment programs may affect compliance testing. Student Loan payments are not factored into ADP or ACP testing. Instead, contributions would be tested as profit sharing contributions. Plan sponsors may need to limit the program to non-highly compensated employees to avoid testing issues.
- If you offer a safe harbor matching contribution, adding this feature may make the employer costs too expensive.
- The Plan Document and Summary Plan Description must be modified to describe how the new program will work.
- Record-keeping organizations may not be able to administer the program in their systems.

Finally, in your particular work environment, there may not be sufficient demand for student loan benefits to justify the added costs. Plan sponsors considering adding this feature are advised to survey the workforce to determine the level of student loan debt and interest in such a program.

Non-ERISA Options

Employers also have several long-standing options for implementing non-ERISA student loan programs. The simplest is providing opportunities for employees to refinance or consolidate their loans. Under this approach, the company partners with an external vendor that provides access to lenders who can refinance existing debt. Some even offer reverse auctions to help reduce interest rates. Loan refinancing and consolidation programs are typically accompanied by debt counseling services. This approach offers proactive educational opportunities about student loans and serves as an outlet for employee questions.

Another option is for companies to make a direct contribution to help employees pay down student debt. These contributions are typically calculated as a certain percentage of the employee's salary. For employees without student debt burdens, the employer might offer similar contributions to a 529 plan to help pay younger children's future college expenses.

Since these programs are not subject to ERISA, there are no testing or other restrictions. As such, employers have broader latitude in how they design direct contribution programs and how much they spend. They can tailor the program to the specific needs of their own work force (and towards candidates they want to attract). However, non-ERISA programs do not directly help employees save for retirement.

Conclusion

There are many avenues a company can take to help employees manage their debt, as well as assist with corporate recruiting and retention efforts. Innovative welcomes the opportunity to review your options and design the best program for your organization.