JUNE 20, 2018

IS A STUDENT LOAN REPAYMENT PLAN IN YOUR ORGANIZATION'S FUTURE?

Employers increasingly understand millennials are graduating from college with heavy debt loads from student loans. The Pew Research Center reported last August that 37 percent of adults under the age of 30 have student loan debt. For young adults with a bachelor's degree or greater, the portion with outstanding student loans rises to 53 percent. Moreover, the median student loan burden for those with bachelor's degrees was $25,000. Those with post-graduate degrees averaged $45,000. In addition, seniors are carrying more student loan debt into retirement today than ever before. *U.S. News & World Report* found that seniors carried $2.8 billion in 2005 of student debt. In 2013, that number had ballooned to $18.2 billion.

Plansponsor.com reported in May 2018 that for "the healthcare and pharmaceuticals industry," 35 percent of employees currently hold student loans taken out for their own education. The website also reported that 55 percent of those carrying student loan debt in the health care sector have taken out $50,000 or more in student loans.

HOW DO STUDENT LOAN REPAYMENT ARRANGEMENTS WORK?

Given the current low unemployment rate and the need for an educated workforce, many employers are considering how to attract and to retain millennials in their workforce. The fast growing benefit that addresses the concern today is a student loan repayment plan under which employers pay or help pay employees' outstanding student debt. Even the U.S. federal government has a student loan repayment program. It was passed into law roughly 11 years ago but was only implemented in some departments this year.

Student loan repayment plans currently are not the sort of plans covered by Internal Revenue Code Section 127, which provides rules under which educational assistance plans may be maintained with favorable tax treatment for both employees and employers. However, a pair of bills have been introduced into the U.S. Congress to permit student loan repayment within the umbrella of Code Section 127. Neither have reached the president's desk for signing. Current student loan repayment plan benefits are taxable as wages to the employee receiving benefits.

WHAT DOES SETTING UP A STUDENT LOAN REPAYMENT PLAN ENTAIL?

Employers must first determine how student loan debt has impacted their workforce. Surveys, interviews and focus groups are all methods employers can use to determine who should benefit under their arrangement. There is also a growing cadre of consultants and other third parties ready to assist employers in assessing the needs within their organizations.

Once the determination has been made as to the depth and breadth of the student loan repayment needs within the organization, leadership must make a commitment to the benefit. The plan can then be designed by the human resource function with oversight of financial officers. Because benefits paid under student loan repayment plans are taxable income to the employee recipients, it is important to integrate the plan sponsor's payroll administrators in the process of designing and implementing a plan.

Most arrangements provide for monthly payments, but other options are available. The employer must determine if the benefit will be a flat amount for all who participate under the plan or use some other formula. The period over which payments will be made is also a key consideration. What, if anything, will be available to those who have no student loans? Employers must determine what types of student loans will be covered by their plans. Employers must also decide whether they will use some sort repayment requirement for those who take advantage of the program and voluntarily terminate employment with short service. Employers will also have to determine what information they will ask for and the process they will employ to verify student loan debt.

WHAT ABOUT COMPLIANCE?

With the plan design determined, the sponsoring employer will need to decide how it will document and communicate the new benefit to employees. Unlike qualified retirement plans, welfare benefits and some fringe benefits, these plans are not subject to IRS or Department of Labor qualification and ongoing operational requirements. They are subject to general principles of employment law, however.

If you have any questions or would like additional information, please contact:

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