

BENEFITS INSIGHTS

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New England Employee Benefits Co., Inc.

Offering Student Loan Repayment Benefits

The price of a college education has soared in recent years—for example, in 2015, Harvard's annual tuition and fees (not including room and board) was \$45,278. However, if yearly tuition increases had kept on pace with the inflation rate since 1971, tuition in the fall of 2015 should have been just \$15,189.

Combined with rising tuition costs, more people are attending college than ever before. Millennials—those born between 1980 and 2000—are the most educated generation in U.S. history. Sixty-one percent of millennials have attended college compared to 46 percent of baby boomers. That education, though, has come at a high price. The class of 2015 graduated with an average of \$35,000 in student debt.

In addition to mounting student debt, millennials entered the job market in the aftermath of the recession. As a result, they had fewer job opportunities and many millennials accepted jobs at lower starting salaries—leaving them with less money than previous generations.

Why offer a student loan repayment program?

While individuals appreciate, and have come to expect, traditional benefits like health insurance and paid time off, many new graduates are looking for companies that offer non-traditional benefits like student loan repayment assistance.

According to a study by Intuition, a student loan management company, 80 percent of individuals would like to work for a company that offers student loan repayment assistance with a matching opportunity, and 49 percent of those individuals would prefer student loan payment contributions over an employer-sponsored 401(k) plan.

The Current State of Student Loan Repayment Programs

Only 3 percent of employers offer student loan aid, according to a study by the Society for Human Resources Management. However, interest in student loan repayment programs appears to be growing among employers, especially as more millennials enter the workforce.


Recently, Fidelity announced that full-time employees at the manager level or below would be eligible to receive \$2,000 a year toward their student loans, for a total of up to \$10,000.

According to a survey from Beyond, a career networking company, 89 percent of respondents believe companies should offer student loan repayment benefits, and 10 percent ranked student loan repayment higher than paid time off as the most important benefit a company can offer.



NEW ENGLAND EMPLOYEE BENEFITS COMPANY

15 Chenell Drive, Concord, New Hampshire 03301
603.228.1133 Fax 603.225.1960 www.neebco.com



Pricewaterhouse Coopers also announced a similar program that will give employees \$100 per month, or \$1,200 per year, to help with student loans, for up to six years. One Boston-based division of the French investment bank Natixis gives its employees \$5,000 toward their student loans after their five-year work anniversary. Employees can then receive \$1,000 a year for the next five years.


Benefits for Employers


While the advantages are obvious for employees, the following are benefits that employers can reap by establishing such a program.

- **Boost Recruitment and Retention**—Millennials are more likely to change jobs than their older co-workers. By providing them with student loan aid from the start, or after they reach a certain tenure, you can foster loyalty, reduce turnover-related expenses and set yourself apart from competitors.
- **Improve Employee Well-being**—Financial stress affects more than 60 percent of millennials. Employees who struggle with their finances are more likely to be less focused at work, lead an unhealthy lifestyle and incur higher medical costs, since stress is a known contributor to high blood pressure and heart disease. By providing employees with some student loan relief, you can help ease their financial concerns, which, in turn, can improve employee morale and increase productivity.

Student Loan Repayment Considerations

Here are some other points to consider when deciding whether to offer student loan aid.

- **Tax Issues**—Currently, student loan repayment benefits are not eligible for preferential tax treatment. Therefore, any amount paid to employees will be subject to income and payroll taxes. However, Congress is considering legislation that would extend the tax exclusion that currently applies to tuition reimbursement on employee student loans—allowing employers to contribute up to \$5,250 per year tax-free. The legislation would also provide incentives to employers to subsidize student loan payments.
 - **Eligibility**—Consider which employees will be eligible for the benefit. Eligibility could be based on tenure or the age of the loan, for instance. Also, consider what types of loans will be covered (private versus federal) since this may affect how your program will need to be set up.
 - **Frequency and Limits**—Determine how frequently contributions will be made (monthly, quarterly or annually), and the highest amount your company will contribute (for instance, up to \$10,000). In addition, employers can make contributions in various ways, including a fixed dollar amount, a percent of the employee's student loan or a percentage of the employee's salary. It is important to evaluate what model will work best for your business.
 - **Departure from the Company**—Some employers have also included provisions that state that if employees leave the company within a certain amount of time (for example, 6, 12, or 18 months) they will have to refund a specified amount of their student loan benefit.
 - **Outside Help**—While student loan repayment programs can be handled internally, there are several startup companies like Student Loan Genius and
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Gradifi that can facilitate student loan repayment options. External vendors can help ensure compliance and make sure that payments are being distributed properly, especially if employees owe money to multiple lenders.

In Conclusion

While the idea of student loan repayment programs remains relatively new, as more millennials enter the workforce, demand for student loan repayment benefits will grow. If you employ a large number of young professionals, or if positions at your company tend to require advanced schooling, consider offering a student loan repayment program to set yourself apart from others in your industry.

For more information about retention and recruitment strategies, contact New England Employee Benefits Co., Inc. today.

