Spotlight

The Role of Employer Repayment Programs in Tackling Student Loan Debt

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Introduction

Student loan debt has grown substantially in recent years, with people in the United States now carrying the burden of $1.5 trillion in higher-education debt.[1] In response, more and more private-sector employers are considering whether to expand their employee benefits policies to better attract and retain workers who have student loans—a practice the federal government started in 1990 for its workers.

A small but growing percentage of employers are offering student loan repayment benefits in one form or another. Many of these employers make direct payments to an employee's student loan servicer to pay down the principal faster, potentially saving borrowers thousands of dollars in interest charges over the life of their loan. Some programs are relatively modest while others are far more generous, and eligibility requirements differ among programs. They have also been described as a "psychological advantage" or "expression of empathy" by an employer to its workers.[2] But these programs also face practical obstacles in their implementation, may benefit some employees more than others, and have tax implications as well. To date, analyses of these programs' effectiveness—either in alleviating student loan debt or in serving as an employee-retention tool—have been limited, leaving long-term effects unclear.

A small but growing number of employers offer student loan repayment assistance as a key employee benefit—but long-term effects of these programs are unknown.

This paper discusses the basics of student loan repayment, the types of employer repayment programs, and some implementation obstacles. It reviews both federal employees' repayment benefits and a selection of private-sector offerings. It also presents two emerging approaches to workplace student loan benefits that offer alternatives to repayment programs: enhanced retirement account contributions for employees with student loan debt, and partnerships with student loan navigators. Additionally, in two accompanying sidebars, the paper discusses the tax implications of repayment assistance and explores how to evaluate the benefits of these offerings on employees' finances.

Student Loans Differ from Other Debt

In the third quarter of 2019, outstanding student loan debt equaled $1.5 trillion,[3] a more than fivefold increase from 2003 levels. Student loan debt is now the largest category of consumer debt after mortgages, surpassing auto loans for the first time in 2010.[4] On average, a 2018 college senior who took on student loans graduated with $29,200 in debt, while debt levels by school varied from $2,500 to $61,600.[5] For borrowers also holding graduate or professional degrees, total debt levels may be far higher.

The vast majority of student loan debt—more than 92 percent—is issued or guaranteed by the federal government.[6] The remainder are private loans, issued either by banks and other lenders or by state agencies. Whether federal or private, student loans differ from other types of consumer loans in several important ways. They are generally not dischargeable in bankruptcy except in very limited circumstances.[7] If a borrower defaults on a federal student loan, wages may be garnished, and even tax refunds and a portion of Social Security benefits may be offset to collect the debt.[8] Borrowers who take out or co-sign private student loans may find that, unlike federal loans, they are still responsible for these loans in case of death or disability of the student.[9]

Student borrowers of federal loans have additional repayment options to better meet their budgets.[10] While the standard repayment period for a federal loan is 10 years, student borrowers have the option to enroll in an income-driven repayment plan in which they pay a fixed percentage of their income each month over a potentially longer time period.[11] While this results in additional accrued interest, smaller initial payments—especially as a borrower begins his or her career—ultimately make repayment more manageable at those times when incomes are lower. After 20 or 25 years, depending on the program, the remaining balance is forgiven for loans under an income-driven repayment plan. For full-time workers in certain nonprofit, educational, and government positions, the federal Public Service Loan Forgiveness program offers forgiveness for a borrower's remaining loan balance after 10 years of on-time monthly payments.[12] Specific loan forgiveness options also exist for particular public education or health care careers.[13] These repayment and forgiveness options complicate the landscape for employer contributions, as discussed below.

Current Student Loan Repayment Benefits Offered by Employers

Use of student loan repayment as an employer benefit is limited, but it is growing. A national survey of human resources professionals found that the percentage of respondent companies offering company-provided student loan repayment assistance rose from 3 percent in 2015 to 8 percent in 2019.[14] This is one of the less frequently available education benefits provided by employers. In 2019, 56 percent of all companies surveyed offered assistance paying for undergraduate or graduate education, 11 percent offered educational scholarships for members of employees' families, and 11 percent offered payroll deduction to a 529 plan. The rise in company-provided student loan repayment assistance is part of a broader trend toward companies expanding financial wellness benefits in general.[15]

Meanwhile, employees have shown significant interest in student loan repayment programs. A May 2017 survey asked employees ages 18 to 50 with student loan debt which new $200-per-month employee benefit they would choose out of various options given. The results showed that 45 percent would choose repayment assistance, while 29 percent would select a larger retirement contribution and a smaller percentage would opt for health insurance assistance, tuition assistance, childcare, or fitness benefits.[16]

Although the federal government has provided the most generous repayment provisions for its workers, other employers have also expanded their repayment offerings. This report initiates a discussion of this issue by looking at eight employer plans that, while not a statistical sample, reflect a spectrum of offerings presently available to employees.[17]

Private-Sector Employees

Generally, employers offering student loan repayment assistance make payments directly to an employee's student loan servicer, typically as additional principal to pay down debt faster. These programs are not always managed by the employers themselves; third-party administrators may manage them, relieving companies of the administrative burden.

Programs vary widely in their generosity—that is, the amount of repayment assistance they offer. Programs range in generosity from $50 per month to $500 per month, or $600 to $6,000 per year. The median repayment assistance program in this analysis pays $100 per month toward an employee's student loans, or $1,200 per year. At this rate, the typical college graduate would pay off his or her student loan debt in approximately 7 years rather than 10; however, because student loan repayment is a form of income, employees must also report and pay taxes on the assistance they receive, reducing the extent of the benefit *(see sidebar 1)*.

Programs also vary by the duration of repayment assistance. Four of the eight programs offer repayment assistance to employees for five years, and two others offer repayment over an even longer period—six years and seven-and-a-half years. For the other two, data were not available.

The total benefit over time varies by employer from $6,000 to $30,000, with $10,000 the median total benefit.

Federal Executive Branch Employees

Since 1990, the federal government has had the authority to offer student loan repayment assistance to executive branch agency employees as part of an overall recruitment and retention strategy.[18] Agencies have discretion to determine which employees receive this benefit, and how much they receive, up to a maximum of $10,000 per year and $60,000 total. The agencies are also required to document the recruitment or retention challenges that they are trying to address by offering this program.

In 2017, 10,206 employees across 34 agencies participated in the program, with workers receiving an average benefit of $7,341.[19] Program participation rebounded in recent years from a low point of only 7,314 participants and $52.9 million in benefits in 2013, making this the highest level of participation since the early 2010s. At its peak participation level, in 2010, the program had 11,359 recipients and paid out $85.7 million in benefits. Beneficiaries included Department of Defense engineers and nurses; Securities and Exchange Commission attorneys, accountants, and compliance examiners; and special agents and uniformed police officers at the Department of Homeland Security. In addition to this executive branch–wide program, which covers the vast majority of the federal workforce, some agencies also have their own offerings, such as a program at the Department of Veterans Affairs for health care personnel.[20]

Federal employees looking to receive this benefit must make a three-year minimum commitment and must reimburse the government for any payments received if they leave government employment before that commitment is up. As a best practice, agencies have required employees to also make personal payments toward their loans, and worked to ensure that any federal payments are credited toward paying down principal and not interest.

Sidebar 1

TAX IMPLICATIONS FOR REPAYMENT ASSISTANCE

The tax code complicates the financial benefits of student loan repayment programs. Educational assistance that employers provide to employees who are current students—such as covering their tuition, fees, books, and supplies—is not taxable to the employee for the first $5,250 per year they receive.[a] This is similar to other employee benefit programs that are not taxed. The CARES Act, signed into law on March 27, 2020, temporarily expanded this tax benefit to include student loan repayment assistance from an employer for the remainder of 2020.[b] Otherwise, payments made by employers toward an employee's student loans count as taxable income for that employee, and employees must report and pay taxes on those repayment benefits every year. For the 2019 tax year, a single worker earning $60,000 per year would owe $2,200 in federal income taxes and $765 in payroll taxes on $10,000 in student loan repayment assistance, reducing the net benefit received by the employee to $7,035.

[a] See Internal Revenue Service Publication 15-B, "Employer's Tax Guide to Fringe Benefits," accessed February 2020, https://www.irs.gov/pub/irs-pdf/p15b.pdf.

[b] P.L. 116-136, §2206.

The program is not without its challenges. Benefits are taxable for federal employees, just as they are in the private sector—effectively reducing the level of assistance received. In addition, some agencies have reported that the program may be less necessary when there are few positions to recruit for in the first place, due to strong demand for these jobs. Other barriers include agency budget constraints and employee concerns about the three-year minimum commitment.[21] Furthermore, some agencies have noted that the maximum annual benefit of $10,000 has not kept up with the increase in student loan debt.[22]

Congressional Staff Members

Similar to the repayment assistance program for federal employees, the legislative branch established in 2002 its own student loan benefit for full-time employees of the US Senate and House of Representatives.[23] Individual representatives' offices may offer its employees student loan repayment assistance of up to $10,000 per year for a maximum total of $60,000, and individual senators' offices may offer up to $6,000 per year for a maximum total of $40,000. Each office sets its own assistance levels within a per-office limit on total outlay. The loans must be taken out in the staffer's own name, rather than loans owed by a spouse or dependent, and the employee may not be currently enrolled in school.

Emerging Approaches for Employer Student Loan Benefits

In addition to direct financial support to help pay for student loan debt, other benefit mechanisms are emerging, including the following:

Indirect support via retirement savings contributions. A new approach to providing a student loan–related benefit directly targets workers for whom such debt is a barrier toward saving for retirement. Rather than helping with student loan payments, the benefit enables workers to start saving for retirement and earning investment returns earlier in their careers. This is a relevant benefit because younger workers who are weighed down with student loan debt often have lower retirement account balances. One recent study found that while, in general, college graduates had greater retirement plan assets than did nongraduates, at age 30 the account balances of graduates with student loan debt were roughly half that of those without student loan debt.[24] As noted in an earlier AARP report, if student loan debt leads to delayed retirement saving, then young workers may need to work between two and seven years longer to achieve the same retirement account balances.[25]

Under this approach, employers indirectly offer student loan repayment assistance by expanding eligibility for 401(k) matching contributions to include employees who are making student loan payments, regardless of whether those employees are currently contributing to the retirement plan. In 2018, Abbott Labs announced that it would contribute 5 percent of an employee's income toward the 401(k) if that employee is paying at least 2 percent of income toward student loan debt.[26] In early 2019, Travelers Group announced a similar benefit, providing employees with a 401(k) match for student loan payments up to 5 percent of income.[27] Companies already have the flexibility to make retirement plan contributions on their workers' behalf, in addition to matching their retirement savings, as long as the programs treat workers fairly.

Expertise on loan repayment options. Instead of directly operating a student loan repayment plan or enhancing retirement contributions, some employers have chosen to partner with a company that acts as a student loan navigator, which can provide expertise on student loan options. Navigators access the borrower's student loan records and ask about the borrower's employment and current income to determine whether the borrower is in a payment plan that is well suited to meet his or her needs, and if there are income-driven repayment and loan forgiveness options for which he or she is eligible but not participating in.[28] These providers also process paperwork and handle disputes with loan servicers and the US Department of Education to ensure that borrowers are obtaining these repayment benefits without leaving dollars on the table. Additionally, navigators may be able to help vulnerable borrowers who have fallen behind or even defaulted on their loans to get back on track.

Administrative Challenges and Other Limitations

While employer student loan repayment programs can potentially save some borrowers a great deal in interest payments, they are not without their challenges. Following are some of their drawbacks in practice.

Improper Payment Processing

In some circumstances, employees may discover that employer payments made on their behalf are ultimately miscounted or misapplied. A 2017 report by the Consumer Financial Protection Bureau found numerous instances in which loan servicers—the companies that receive and process student loan payments—had difficulty working with employer payments, leading to improper processing or recording of payments that could be cumbersome to fix.[29] Servicers may each have different policies and standards for handling these payments. Among third-party program managers surveyed for the study—in other words, companies operating student loan benefit programs on the employer's behalf—between 15 and 30 percent of participants' payments cannot be electronically routed to servicers, introducing additional costs, risk, and inconvenience to the borrower. In some cases, loan servicers fail to properly credit payments from employers, wreaking havoc on repayment schedules and advancing payment due dates instead of paying down principal. Employer payments are also potentially challenging for students in income-driven repayment plans who plan to apply for Public Service Loan Forgiveness because these additional payments may complicate whether a student's payment qualifies toward eventual loan forgiveness.[30]

Program Design May Raise Concerns about Selection Bias

Furthermore, the design of employer programs may reinforce disparities. Some companies have decided to introduce a broad-based program available to all who meet certain criteria, such as education level, job position, or length of service requirements. Others may restrict their programs only to new employees, operate programs at the discretion of individual managers, or require employees to apply for assistance. While discretionary programs may be a more effective way of distributing limited employee benefit dollars to meet human resources goals, they may be more difficult to market to prospective employees—and may also raise concerns about managers picking favorites. Meanwhile, the value of employer repayment assistance will depend on individual circumstances *(see sidebar 2)*.

The Relative Scarcity of Age-Neutral Repayment Assistance Programs

Student loan debt affects borrowers of all ages, whether people are trying to repay their own loans or covering debt taken out for a child, grandchild, or other relative.[31] Approximately 8.4 million adults age 50 or older currently have student loans,

Sidebar 2

EVALUATING HOW BORROWERS MAY BENEFIT FROM EMPLOYER REPAYMENT ASSISTANCE

Varying repayment scenarios create a challenge for student loan borrowers as well as for employers seeking to help ease their burden. For some borrowers, especially if their debt payments are manageable under a standard 10-year repayment plan, employer-provided repayment assistance has the potential to help pay down debt faster while also freeing up some of the borrower's disposable income. For a typical college graduate with $30,000 in federal student loans, the median employer repayment assistance program offering of $100 per month would shorten the borrower's repayment period from 10 years to 7 years and 2 months (table 1).[a] For a borrower with higher debt levels, such as one with a graduate degree, the reduction in time spent repaying the loan would ultimately be more modest. A borrower with $60,000 in graduate student loans receiving an employer benefit of $100 per month would pay off the debt in 8 years and 3 months instead of the standard 10-year repayment period.[b]

TABLE 1
Accelerating Repayment Periods through Employer Repayment Assistance

Employer Student Loan Contribution	Employee with $30,000 in Student Loan Debt	Employee with $60,000 in Student Loan Debt *(including graduate debt)*
No employer contribution	10 years	
$50 per month ($600 per year)	8 years, 4 months	9 years
$100 per month ($1,200 per year)	7 years, 2 months	8 years, 3 months
$500 per month ($6,000 per year)	3 years, 4 months	4 years, 11 months
$833 per month ($10,000 per year)	2 years, 4 months	3 years, 9 months

Both cases assume that the borrower would still be able to keep up with payments under the standard repayment plan instead of an income-driven repayment option. The borrower with $30,000 in debt would pay $304 per month under the standard plan, while the borrower with $60,000 in debt would pay $715. A recent graduate earning $50,000 per year could pay as little as $261 per month under the most favorable income-driven plan, although payments could continue beyond 10 years.[c]

Under income-driven plans, the benefits are harder to quantify. Depending on the employer program, repayment assistance may substitute for all or part of the borrower's own payment each month, or it may act as an additional principal payment. The interaction between employer payments and income-driven repayment plans can present a logistical challenge for borrowers and employers alike, as noted in a 2017 report by the Consumer Financial Protection Bureau.[d]

The ultimate financial benefits for employees receiving student loan repayment assistance from their employer will vary based on several factors, including debt and income levels as well as tax consequences of assistance. One analysis of varying scenarios concludes that for borrowers with small student loan debt levels relative to income—often borrowers without a graduate degree—employer assistance is financially helpful. For those with larger student loan balances and those who would benefit from income-driven repayment plans or public service loan forgiveness, the decision is less clear.[e] While employer assistance helps pay down principal faster, the lower monthly payments under income-driven repayment and the potential for loan forgiveness would also generate significant savings for borrowers. In some cases, the modest levels of employer assistance would not be as valuable as other benefits, such as a more generous retirement plan. Meanwhile, for programs offering enhanced retirement contributions, further research will be needed to determine whether these initial employer contributions effectively increase savings levels and account balances in the long run.[f]

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[a] These estimates also assume that federal loans have a weighted average interest rate of 4 percent.

[b] This assumes a weighted average interest rate of 7.6 percent, reflecting the higher rates charged on graduate student loans.

[c] This payment amount assumes the borrower lives in the 48 contiguous states, is single, and has no dependents. Payments under an income-driven plan would continue for 10 years if eligible for Public Service Loan Forgiveness, or could otherwise continue for up to 20 to 25 years if the loan was not paid off sooner.

[d] Consumer Financial Protection Bureau, "Innovation Highlights: Emerging Student Loan Repayment Assistance Programs."

[e] Ross A. Riskin, "Evaluating the Effectiveness of Employer-Provided Student Loan Repayment Assistance Programs," *Journal of Financial Planning* 32, no. 2 (2019): 34–43, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3422899.

[f] While the effects of the Abbott/Travelers approach on retirement savings are not yet known, prior changes in employers' retirement plan structures may provide some insights. Notably, one study examining an employer converting a traditional matching program to a nonelective contribution (i.e., automatic employer contributions) estimated modest decreases in participation and contributions. John Beshears, James J. Choi, David Laibson, and Brigitte C. Madrian, "The Impact of Employer Matching on Savings Plan Participation under Automatic Enrollment," NBER Working Paper No. 13352 (Cambridge, MA), August 2007, https://www.nber.org/papers/w13352.pdf. The Abbott/Travelers approach adds the equivalent of a nonelective contribution for workers with student loan debt but does not eliminate the match for other employees, making the effects more uncertain.

making up roughly one out of every five dollars in outstanding student loan debt.[32] However, the eligibility criteria for repayment assistance may not be fair to employees of all ages. Among the private-sector programs examined, half had features that did not support age neutrality: two required that participants be recent graduates (within three years), and another two had experience caps, limiting assistance to certain junior positions. Meanwhile, only one of the eight explicitly mentioned loan repayment assistance for loans borrowed toward a child's education, which is a more age-neutral approach.

The Effectiveness—and Implications—of Employee Length-of-Service Requirements

Employers offering repayment assistance programs can structure them with a strong incentive to ensure that these programs support retention goals. For example, the federal government's repayment assistance program requires workers to commit to a specific length of service in order to receive the benefit, and if they do not complete that time period, they are required to pay back any assistance received. While this policy promotes the use of repayment assistance as a retention tool, some employees may choose to stay in their position only until the minimum length of service requirement is met. In addition, from the perspective of a program working for both employer and employee, the financial obligation may potentially make it difficult for workers to seek other opportunities that better meet career objectives or other needs, whether professional or personal. For example, approximately one in four family caregivers is a millennial, the majority of whom balance that caregiving with employment,[33] making the right job fit all the more important for a worker in such a situation. Additionally, because the repayment obligation may be triggered whether an employee resigns or is fired, these assistance programs may be less attractive for some workers. Being fired—already an event that causes severe financial strain—would be all the more so. The federal government has acknowledged that these length-of-service requirements may have mixed consequences.[34]

Conclusion

While not a panacea for the challenges student loan debt presents to borrowers, employers' role in repayment of this debt is growing, potentially benefiting those who are able to take advantage of this perk. From the federal government to the private sector, student loan repayment programs are an emerging offering for employers looking to attract and retain workers with student debt burdens—and some workers may see significant gains from them. The scale of their deployment to date remains modest, with limited data available to determine whether these programs are meeting their goals. The terms and conditions of these programs vary, and their ultimate outcomes for borrowers and employers alike remain unclear. As companies experiment with these programs—including new approaches such as supporting employees' retirement plan contributions instead of directly paying down student loan debt—additional opportunities will continue to arise that can help determine how effective these programs are in meeting the goals of both employees and employers.

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Real Possibilities