SHOULD YOU CONSIDER ADDING A STUDENT LOAN BENEFIT?

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As baby boomers approach retirement, it's natural to see employee benefits planning shift toward meeting millennial needs and expectations. One way to make your company a millennial magnet is to consider adding a student loan benefit.

Millennials are Burdened with College Debt | A recent report from credit reporting agency Experian indicates that the amount of outstanding student loan debt in the United States just reached $1.4 trillion. On top of that, a report by the Institute for Higher Education Policy found that college is too expensive for most Americans. With little choice but to borrow to pay for an education, it's little surprise that millennials are looking for help with their student loan payments.

One way for a company to set itself apart from other employers is to offer a student loan payment benefit. The latest American Student Assistance survey indicates that 86% of young workers would commit to an employer for at least five years if offered help repaying loans. Unfortunately, the Society of Human Resources Management says that only 4% of organizations currently offer financial aid to help employees repay student loans. This offers forward thinking companies a chance to attract top millennial talent with a creative and uncommon benefit.

Many nonprofits and government agencies already offer debt forgiveness for all or part of an employee's remaining balance when they work for them for a certain period of time. For example, the Florida Bar Association offers student loan repayment help of up to $5,000 a year to attorneys employed at Florida legal aid and legal services organizations for 12 months.

In order to compete with government and nonprofits, companies need to step up and offer similar benefits to their employees.

How these Programs Work | The programs themselves can vary in complexity. Some programs are nothing more than the employer providing a website tool which allows employees to enter their loan information and establish a "*loan dashboard*". These dashboards can then model the fastest way for the employee to pay down the debt.

More advanced programs can include the ability to refinance loans at a lower group rate in exchange for payments being send directly from the employer to the loan holder. The most generous of these programs actually allow for the employers to make supplemental payments to the employee's loans, either through a matching system or a straight contribution.

Employers like Aetna and Fidelity offer student loan repayment help through a matching contribution program. Workers agree to set aside money from their paychecks, and companies match that contribution. For example, Fidelity will match employee contributions of up to $2,000 a year, with a lifetime total of $10,000. Book publisher Penguin Random House doesn't offer a match. Instead, the company offers a benefit of up to $1,200 a year toward student loan repayment for up to seven and a half years, capping at $9,000.

These programs can be administered through human resources, or make use of a third party to administer the benefits. Participants often need to provide information about the loan, including the payment address, so an employer can send the payment directly to the lender. There are third-party companies, like Tuition.io, Student Loan Genius, and Gradify, that specialize in helping employers set up these student loan payment assistance programs.

For the Time Being, Student Loan Benefits Must be Separate from Retirement Benefits | One challenge for millennial employees is deciding whether to pay down loans or save for retirement. There have been some attempts to solve this dilemma by integrating loan repayment and retirement savings. Unfortunately, the rules around 401(k) plans are too complicated and these approaches have not taken off. Given the size of the problem, however, it is not unreasonable to believe we will see this in the future.

Downsides to Adding a Student Loan Benefit | For now, adding a student loan benefit ultimately becomes another cost for an employer. Companies need to implement systems that ensure loan payment benefits go to lenders for the purpose of reducing student loan balances. Or, if the company doesn't want to manage the benefits themselves, it means adding more to their third-party administrative costs.

Another downside to offering compensation toward employee student loans is the fact that, unlike making employer contributions to a retirement plan, company efforts to pay down student debt are not tax deductible. It's a straight cost to employers, with no reduction in tax liability. While there have been some moves to introduce bills to make student loan benefits tax deductible for employers, legislation remains largely mired in committee.

Regardless of the challenges, however, with boomers exiting the workforce, the need to attract millennial workers is on the rise. As the competition for millennial talent becomes tougher, employers must look for ways to stand apart from the crowd. Even though it may mean additional costs, and some administrative challenges, adding a student loan repayment benefit can ultimately pay dividends in the talent attracted — and retained — by innovative companies.
