

Encourage Employers to Help with Student Debt

More than anything else, a higher education remains the ticket to the proverbial American Dream. It offers the skills prized by employers in an increasingly global marketplace, and puts graduates on a path to higher wages over a lifetime of work. But for far too many Americans, it comes at the price of student loans that can saddle them with debt just as they're launching their careers and stunt their financial wellbeing for years to come.

New thinking can address the challenge. One promising solution is gaining traction in the private sector. A small but growing number of U.S. employers have begun offering student loan repayment benefits to their employees—helping them erase student debt faster and, not incidentally, earning the loyalty of employees in a competition for the best workforce talent. Though these programs are still uncommon, they are in high demand, leading some to dub student loan assistance “the hottest employee benefit” today.¹

Congress can help spur widespread adoption of this solution by encouraging more employers to offer this benefit to their workers, such as through the tax code. While current law gives employers a tax break for offering tuition assistance benefits to their employees, student loan assistance doesn't get the same favorable treatment. Lawmakers should take up bipartisan legislation in this session to equalize the tax treatment of student loan assistance benefits.

THE CHALLENGE

STUDENT LOAN DEBT IS SKYROCKETING FOR GENERATIONS OF AMERICAN WORKERS

American college graduates collectively face a student loan debt crisis of eye-popping proportions. As of December 2018, more than 44.7 million borrowers owed \$1.5 trillion in student loans²—a sum that exceeds the gross domestic product of all but a dozen countries around the globe.

While this student debt burden impacts Americans of all ages and socioeconomic groups, it hits younger workers the hardest. An estimated 65 percent of the total is owed by people under 40—no surprise, considering that more than two-thirds of college seniors graduating in recent years have left campus with student loan debt, averaging \$28,650 as of 2017.³

Now, there's evidence that this mounting IOU has consequences for financial wellbeing more broadly. Indebted graduates enter the workforce with less money available to save, and this constraint soon catches up with them. By age 30, those with student debt have accrued only about half as much in retirement assets as those without debt, according to the Center for Retirement Research at Boston College.⁴ Other studies suggest that student loan debt also makes it harder for young people to pursue graduate studies, buy their first home⁵ and achieve other important life milestones—including, anecdotally, even starting a family.

In recent weeks, the issue has drawn the attention of candidates on the Presidential campaign trail. With an eye toward the coveted youth vote, several Democratic contenders have made college affordability a rallying cry and unveiled proposals to address the crushing debt burden. The most ambitious plan to date would "cancel" up to \$50,000 in student debt for every borrower with a household income under \$100,000—helping an estimated 42 million Americans.⁶ This plan, however, would be immensely expensive for U.S. taxpayers and potentially create perverse incentives for borrowers. Workers need better and more cost-effective help.

THE GOAL

ENCOURAGE EMPLOYERS TO HELP EASE WORKERS' STUDENT DEBT BURDENS

In the search for solutions to the student debt crisis, America's employers are an important part of the answer. Today's historically tight labor market and demand for young workers with the right skills presents big challenges—and a big opportunity. In particular, more employers are finding that offering student loan assistance benefits is an effective way to attract and retain workers.

Under this approach, employers can choose to make monthly contributions against an employee's student loan balance—either directly to the employee, or to the employee's lender—and speed up pay-off of the loan. This benefit is actually something that Congress and most federal agencies have offered to eligible staff members for more than a decade. In both cases, the repayment programs were implemented as a way to recruit highly skilled young employees to government service. The specifics vary, but broadly speaking, Senate staffers can qualify for up to \$500 per month to pay down their student loans, and House staffers can receive as much as \$10,000 yearly in assistance, up to a total \$60,000. Similarly, all federal agencies are permitted to make payments of up to \$10,000 annually against federal student loans for qualifying employees who agree to remain on the job for at least three years. Most recently through this program, 34 agencies assisted nearly 10,000 federal employees with more than \$72 million in student loan repayment benefits.⁷

From the perspective of today's workforce, there's unmistakable demand for this "perk" in the private sector, too. Recent surveys have found that student debt is a primary source of stress, distraction, and impaired productivity for young workers. More than half worry "all the time" or "often" about repaying their loans, and many say this anxiety has impacted their health.⁸ Moreover, big majorities would welcome proactive solutions from their employers.

- Fully 92 percent say they'd take advantage of an employer match for their student loan payments if one were offered.⁹
- 58 percent would even prefer that their company make payments against their student debt over contributions to a retirement fund.¹⁰
- And—most importantly for companies—offering help with student loans would earn major points for participating employers. In one survey, 90 percent of employees said that having a loan repayment benefit would positively influence their decision to accept a job offer,¹¹ while in another, 86 percent said they'd commit to a company for five years if it helped pay off their student debt.¹²

Some forward-thinking employers have responded to this growing market demand and launched student loan repayment plans. Among the early adopters:

- **Fidelity.** Through its *Step Ahead* student loan assistance program, the investment company has helped more than 9,000 employees by offering a monthly subsidy—totaling up to \$10,000 per borrower—toward student loans.¹³
- **Abbott.** The pharmaceutical company encourages employees to repay student debt and save for retirement simultaneously through a 5 percent employer “match” in its *Freedom 2 Save* Plan.¹⁴
- Others ranging from **PricewaterhouseCoopers** to **Peloton**, the fitness cycling company, have partnered with Gradifi, an employee benefits platform, to offer monthly contributions to eligible associates, helping them whittle their student debt.

Notwithstanding these models, employer-provided student loan assistance remains rare. According to an annual Employee Benefits Survey by the Society for Human Resource Management (SHRM), just 4 percent of U.S. companies offered this benefit last year.¹⁵ Far more commonplace, found SHRM, are traditional tuition assistance programs: 51 percent of employers provided tuition support for their associates attending undergraduate studies, and 49 percent offered assistance for graduate school.

THE PLAN

EQUALIZE TAX TREATMENT OF EMPLOYER STUDENT LOAN ASSISTANCE BENEFITS

There’s a simple reason why so few employers currently offer student loan repayment assistance—current tax law discourages them for doing so. Currently under Section 127 of the Internal Revenue Code, businesses receive a tax break for subsidizing their qualified employees’ postsecondary tuition. (Indeed, that’s been the case for 40 years, when the tuition deduction was first enacted by Congress as a pilot.) But there’s no tax incentive to support employees who have already incurred student loan debt in college or grad school. If student loan repayments were treated the same way tuition assistance is today under federal law, many more employers would be eager to adopt such programs.

Congress could jumpstart private-sector engagement on this pressing issue by passing the Employer Participation in Repayment Act. Introduced by Reps. Scott Peters (D-CA) and Rodney Davis (R-IL) in the House and Sens. Mark Warner (D-VA) and John Thune (R-SD) in the Senate, the legislation would build on the current

educational assistance program by allowing employers to contribute up to \$5,250 a year, tax-free, toward any employee's student loan repayments. The contribution would be tax-exempt for the employee, and could be made against qualified education loans to the employee directly, or through a payroll deduction to the employee's lender.

At this writing, the measure has broad, bipartisan support, with 128 cosponsors in the House and 21 in the Senate—reflecting much wider interest than in the previous session of Congress. The legislation also enjoys the support of leading education organizations, such as the National Education Association and the National Association of Independent Colleges and Universities, as well as the Democratic House leadership and key figures from the Trump Administration, according to the bill's sponsors. There's no official score, but the Joint Committee on Taxation has estimated the measure would cost \$3.6 billion over 10 years—far less than the price tag for having the federal government “cancel” all outstanding student debt. The bill's lead Democrats are pushing to get it attached to an appropriate vehicle—perhaps a tax extenders package—in the current session.

Student debt has saddled millions of Americans and can remain a lifelong drag on their families' financial health. Employers can help provide much-needed relief, and many seem eager to do so. With a straightforward change in the tax code, Congress could provide a powerful incentive for more companies to help—delivering benefits for workers, their families, and the 21st-century workforce.

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Endnotes

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