EBRI Issue Brief
December 6, 2018 • No. 467

Student Loan Debt Trends and Employer Programs to Help

Presentations by Craig Copeland, Employee Benefit Research Institute; Neil Lloyd, Mercer; and Alex Smith, City of Memphis. Moderated by Stacy Schaus, Schaus Group.

AT A GLANCE

Over the past two decades, student loan debt has been increasing precipitously. This debt has affected a great number of young workers and even older workers. Consequently, employers have begun to look at benefit programs to help workers with this debt, as it can have lifelong financial consequences, including impacting retirement savings and homeownership.

This *Issue Brief* summarizes the Employee Benefit Research Institute web briefing on student loan debt and employer student loan debt assistance programs. It is broken up into three parts: Craig Copeland covering an overview of student loan debt held by families, Neil Lloyd examining employer programs for student loans, and Alex Smith discussing the City of Memphis' student loan repayment program.

Overall, the percentage of families with student loan debt grew from 10.5 percent in 1992 to 22.3 percent in 2016. For families with heads younger than age 35, the percentage with student loan debt approaches one half (45 percent), and the percentage is over a third for those with a family head ages 35 to 44. In 1992, among families having student loan debt, 85.0 percent were families with a head younger than 45 years of age. However, by 2016, this percentage had fallen to 66.7 percent. In its place, the share of families with heads ages 45–54 with student loan debt increased from 8.9 percent in 1992 to 19.5 percent in 2016.

Neil Lloyd, Partner, Head of DC & Financial Wellness Research, Mercer, describes some of the programs that employers have undertaken, including consolidation and refinancing. He also discusses some of the more unique programs, such as repayment programs and a 401(k) plan matching program. In addition, the challenges and positive attributes of the various programs are considered.

Alex Smith, Chief Human Resources Officer for the City of Memphis, outlined the city's repayment program, which was the first of its kind for a public sector entity. She explained the development and the mechanics of the program while also providing evidence of the benefits to both the workers through reduced student loan debt and to the City of Memphis from higher retention and engagement of the program's participants.

Student loan debt is going to continue to be an important issue for all workers regardless of age. Thus, employers looking to attract and retain workers can develop creative programs to address one of the more pressing issues facing workers. As workers recognize the lifelong financial consequences of having student loans, workers will look for employers who provide student loan programs, because without assistance, catching up for many will be very difficult to do.

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Craig Copeland is senior research associate at the Employee Benefit Research Institute (EBRI). Neil Lloyd is partner and head of DC & financial wellness research at Mercer. Alex Smith is chief human resources officer for the City of Memphis. Stacy Schaus is president of the Schaus Group. This *Issue Brief* was written with assistance from the Institute's research and editorial staffs. Any views expressed in this report are those of the authors and should not be ascribed to the officers, trustees, or other sponsors of EBRI, Employee Benefit Research Institute-Education and Research Fund (EBRI-ERF), or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

Suggested Citation: Craig Copeland, Neil Lloyd, Alex Smith, and Stacy Schaus. "Student Loan Debt Trends and Employer Programs to Help." *EBRI Issue Brief*, no. 467 (Employee Benefit Research Institute, December 6, 2018).

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Table of Contents

Introduction 4

Student Loan Debt Overview: Craig Copeland 4

Questions and Answers 10

Employer Programs for Student Loans: Neil Lloyd 10

Questions and Answers 14

City of Memphis' Student Loan Repayment Program: Alex Smith 16

Questions and Answers 20

Conclusion 22

Figures

Figure 1, Percentage of Families With Student Loan Debt, 1992–2016 5

Figure 2, Percentage of Families With Student Loan Debt, by Age of Family Head, 1992–2016 5

Figure 3, Age Distribution of the Families Whose Head Has a Student Loan, 1992 and 2016 6

Figure 4, Median, Average, and 90th Percentile of Student Loan Balances for Families Having Student Loans, 1992–2016 7

Figure 5, Required Family Monthly Student Loan Debt Payments; Percentage of Family Income Debt Payments Represent, 2016 7

Figure 6, Required Median Monthly Student Loan Debt Payments; Percentage of Income the Payments Represent, by Family Head Age, 2016 8

Figure 7, 2016 DC Plan Balances for Families With Heads Ages Younger Than 35 8

Figure 8, Percentage of Families Who Own a Home, by Student Loan Incidence and Age and Educational Level of Family Head, 2016 9

Figure 9, Percentage of Workers Who Say Various Educational or Financial Wellbeing Programs on Debt Will Be Helpful in Preparing for Retirement, by Age, 2018 10

Figure 10, Student Debt – What Are the Offerings for Individuals? 11

Figure 11, Student Debt – What Are the Offerings From Employers? 12

Figure 12, Student Debt – What Are the Offerings From Employers? 12

Figure 13, Student Loan Direct Payment Proposed Tax Incentivization 15

Figure 14, Combination Programs 15

Figure 15, City of Memphis Overview 17

Figure 16, City of Memphis Student Loan Contribution Program 17

Figure 17, Average Debt & Participation for the City of Memphis 18

Figure 18, Participation & Debt by Age Band 19

Figure 19, Engagement Results 19

Student Loan Debt Trends and Employer Programs to Help

Presentations by Craig Copeland, Employee Benefit Research Institute; Neil Lloyd, Mercer; and Alex Smith, City of Memphis. Moderated by Stacy Schaus, Schaus Group.

Introduction

Student loan debt has been increasing rapidly over the past two decades. This debt has affected a great number of young workers and even older workers. Consequently, employers have begun to look at benefit programs to help workers with this debt, as it can have lifelong financial consequences, including impacting retirement savings and homeownership.

The Employee Benefit Research Institute conducted a web briefing on this student loan issue. Craig Copeland, Senior Research Associate, EBRI, described the incidence and the financial issues of student loan debt. Neil Lloyd, Partner, Head of DC & Financial Wellness Research, Mercer, discussed the types of employer student loan programs being offered as well as issues and complications of providing these programs. Alex Smith, Chief Human Resources Officer for the City of Memphis, provided an overview of the city's student loan repayment program that they instituted in 2017. In addition to the briefing, which was moderated by Stacy Schaus, President, Schaus Group, a follow-up interview with Ms. Smith was conducted to provide further background into the City of Memphis' program.

This *Issue Brief* summarizes both the web briefing and the follow-up interview. It is broken up into three parts: Craig Copeland covering a student loan debt overview, Neil Lloyd examining employer programs for student loans, and Alex Smith discussing the City of Memphis' student loan repayment program.

Student Loan Debt Overview: Craig Copeland

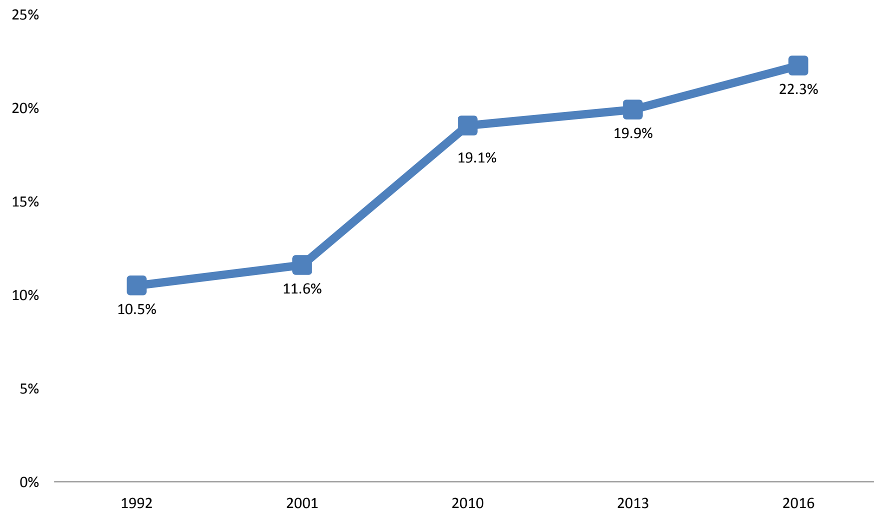
This portion of the briefing will provide an overview of statistics on student loan debt, from incidence to the amount still owed, the required payments, and the correlation of student loan debt with defined contribution (DC) retirement plan balances and homeownership. Finally, from the Retirement Confidence Survey (RCS), the perceived helpfulness in preparing for retirement of certain financial wellbeing programs — in particular, student loan debt assistance — are examined.[1]

The data sources for all of the statistics in this section of the *Issue Brief*, except for the RCS, are from the Federal Reserve's Survey of Consumer Finances (SCF). The unit of measurement is the family for SCF, so the family is the basis of all these statistics. Therefore, either or both of the spouses could have the student loan debt when referencing the percentage of families.

Overall, the percentage of families with student loan debt has grown tremendously since 1992, more than doubling from 10.5 percent in 1992 to 22.3 percent in 2016 (Figure 1). When breaking the families out by the age of the family head, those families with the youngest heads have higher percentages with student loan debt. For families with heads younger than age 35, the percentage with student loan debt approaches one half (45 percent), and the percentage is over a third for those with a family head ages 35 to 44 (Figure 2).

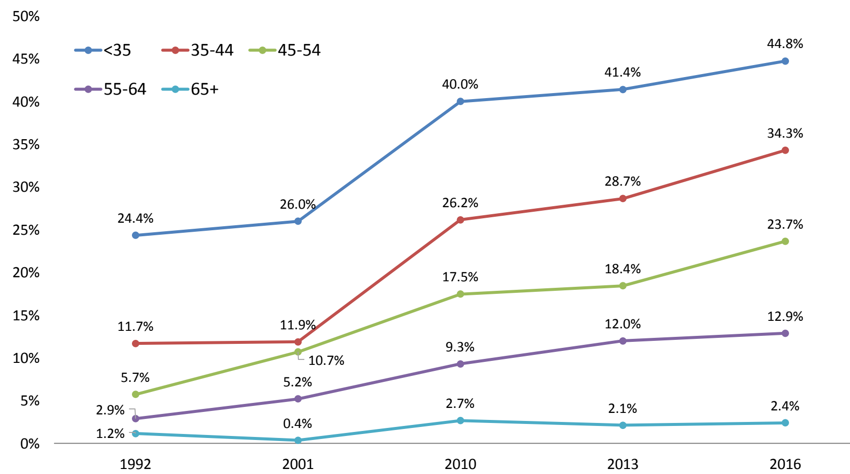
While the largest increases in student loan debt that occurred from 2001 to 2010 were for the youngest families, the largest increases are now starting to occur among those in the ages 35 to 44 and 45 to 54 cohorts. Consequently, the distribution of the families with student loan debt based upon the age of the family head has moved toward older ages. In 1992, among families having student loan debt, 85.0 percent were families with a head younger than 45 years of age (Figure 3). However, by 2016, this percentage had fallen to 66.7 percent. In its place, families with heads ages 45–54 showed significant growth in the share of those with student loan debt, increasing from 8.9 percent in 1992 to 19.5 percent in 2016.

Figure 1
Percentage of Families With Student Loan Debt, 1992–2016

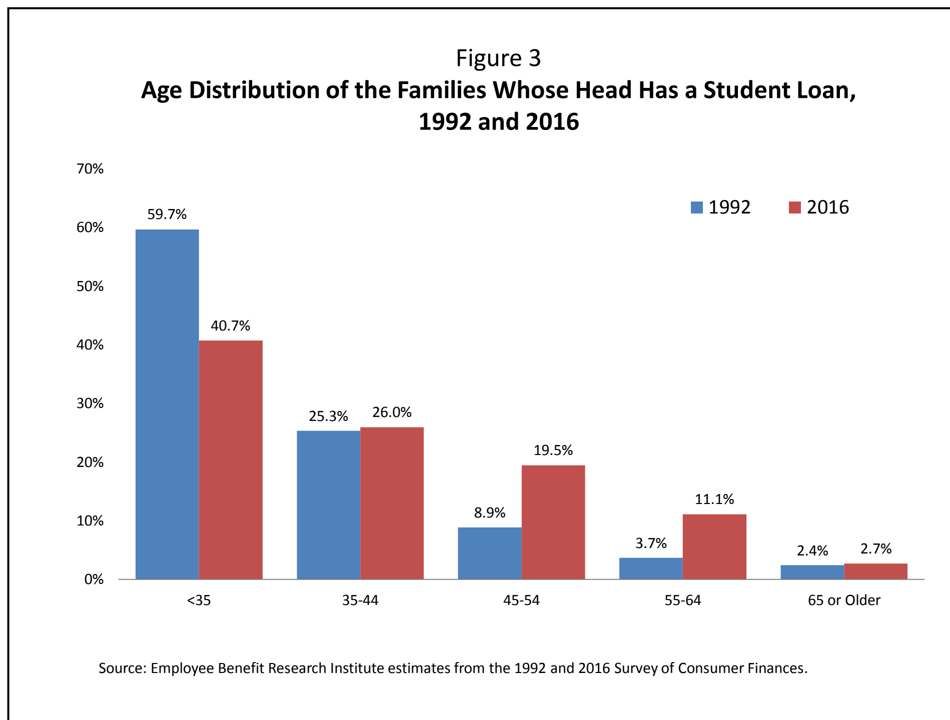


Source: Employee Benefit Research Institute estimates from the 1992, 2001, 2010, 2013, and 2016 Survey of Consumer Finances.

Figure 2
Percentage of Families With Student Loan Debt, by Age of Family Head, 1992–2016



Source: Employee Benefit Research Institute estimates from the 1992, 2001, 2010, 2013, and 2016 Survey of Consumer Finances.



Not only has the percentage of families with debt increased, but also the amount owed. The median amount owed rose from $5,363 in 1992 to $19,000 in 2016 (both in 2016 dollars) (Figure 4). The average amount owed had a similar increase — going from $11,751 to $34,293. For those with the highest amounts owed (90th percentile), the debt grew from $23,463 to $80,000.

Translating these amounts owed into monthly required payments, the median payment is found to be $200, or 3.1 percent of the family's income (Figure 5). The average is $304, or 5.0 percent of family income. At the 90th percentile, the monthly required payment reaches $630, or 9.9 percent of family income.

While the median payment is $200 across age groups — from families younger than 35 to those in the 55 to 64 age cohort — the percentage of family income these payments represent is higher for the youngest cohort (family heads less than age 35) at 4 percent of income. This is compared with around 3 percent for the other age groups through ages 55 to 64 (Figure 6). For families with heads ages 65 or older, the median required payments ($100) and percentage of income (1.6 percent) are lower than for those in the younger age groups.

Given the increasing incidence of student loan debt, the correlation between this debt and asset ownership is worth noting. In particular, examining the relationship between this debt and both DC balances and homeownership helps provide an overall financial picture of the families with student loan debt vs. those without this debt.

To control for differences associated with education and assets, the analysis breaks out families by the education level of the family head. Two important findings result. First, families with heads having a college degree or higher have higher DC balances than those families with a head with some college only (no bachelor's degree completed) (Figure 7). Second, the DC balances of families without a student loan are higher than for those with a student loan. Focusing on families with heads younger than age 35, the median DC balance of those families whose head has a college degree or higher and *no* student loan was $20,000. This is compared with $13,000 for families with heads of the same age and educational level but *with* a student loan. Likewise, the median DC balance of families in this age cohort whose head has some college only and *no* student loan was $10,000, compared with $4,700 for comparable families *with* a student loan.

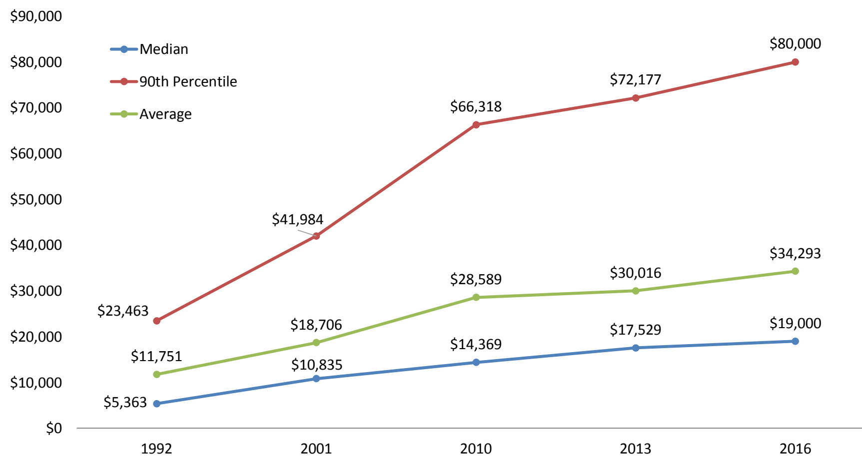


Figure 4
Median, Average, and 90th Percentile of Student Loan Balances for Families Having Student Loans, 1992–2016

Source: Employee Benefit Research Institute estimates from the 1992, 2001, 2010, 2013, and 2016 Survey of Consumer Finances. All dollar values are in 2016 dollars.

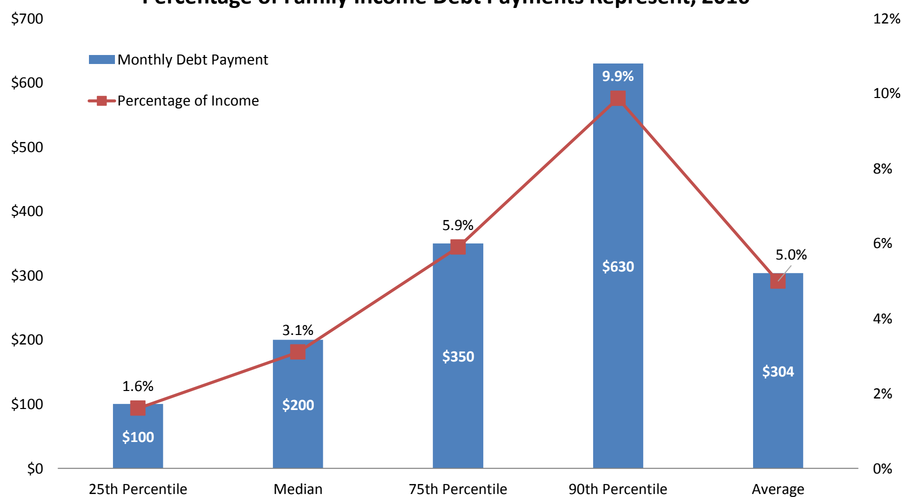


Figure 5
Required Family Monthly Student Loan Debt Payments; Percentage of Family Income Debt Payments Represent, 2016

Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances.

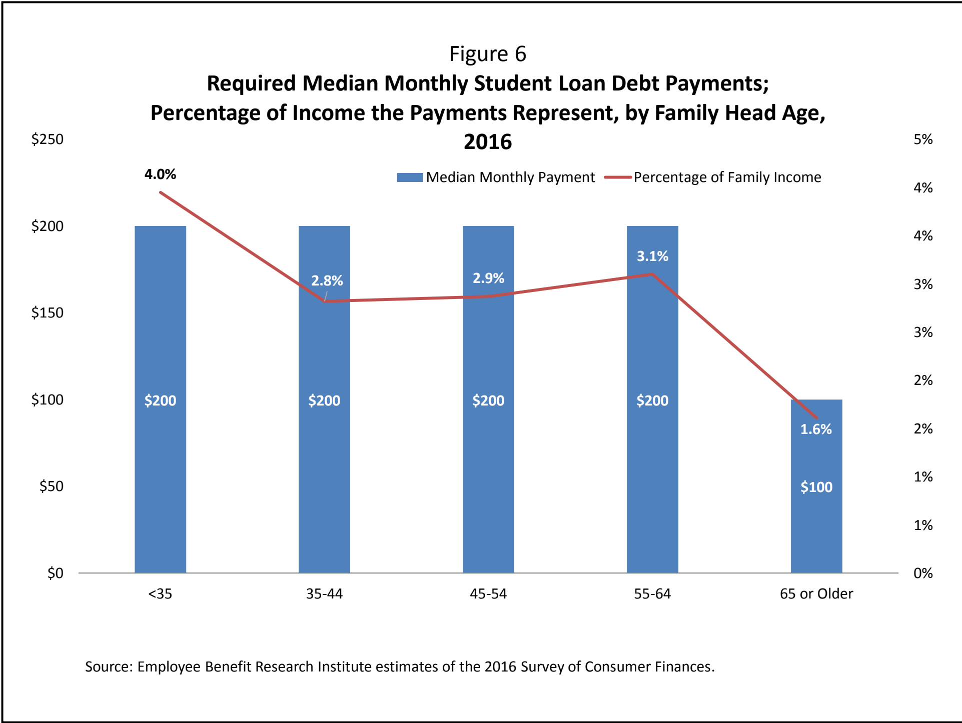


Figure 6
Required Median Monthly Student Loan Debt Payments; Percentage of Income the Payments Represent, by Family Head Age, 2016
Median Monthly Payment
Percentage of Family Income
$250
$200
$150
$100
$50
$0
5%
4%
4%
3%
3%
2%
2%
1%
1%
0%
4.0%
2.8%
2.9%
3.1%
1.6%
$200
$200
$200
$200
$100
<35
35-44
45-54
55-64
65 or Older
Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances.

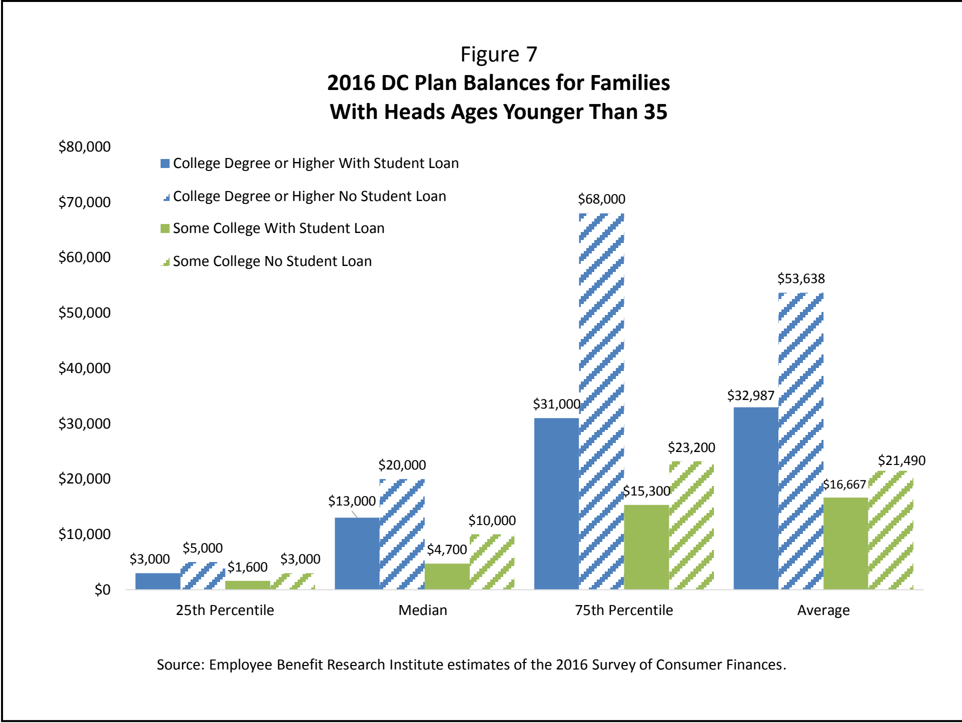


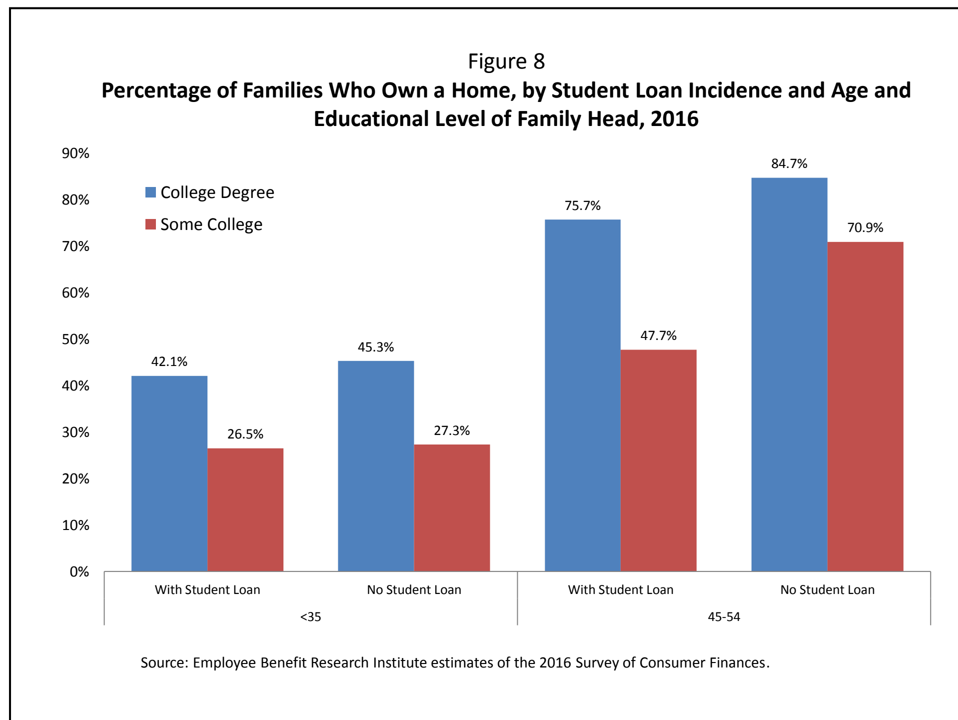
Figure 7
2016 DC Plan Balances for Families With Heads Ages Younger Than 35
College Degree or Higher With Student Loan
College Degree or Higher No Student Loan
Some College With Student Loan
Some College No Student Loan
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
$3,000
$5,000
$1,600
$3,000
$13,000
$20,000
$4,700
$10,000
$31,000
$68,000
$15,300
$23,200
$32,987
$53,638
$16,667
$21,490
25th Percentile
Median
75th Percentile
Average
Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances.

Similarly, when it comes to homeownership, families with a head having a higher level of education are more likely to own a home (Figure 8). Furthermore, families *without* a student loan were more likely to own a home than those *with* a student loan. For families with a head less than age 35, the differences in likelihood of homeownership between those with and without a student loan were minimal. However, the differences increased substantially with the age of the family head, particularly for families with a head having some college only.

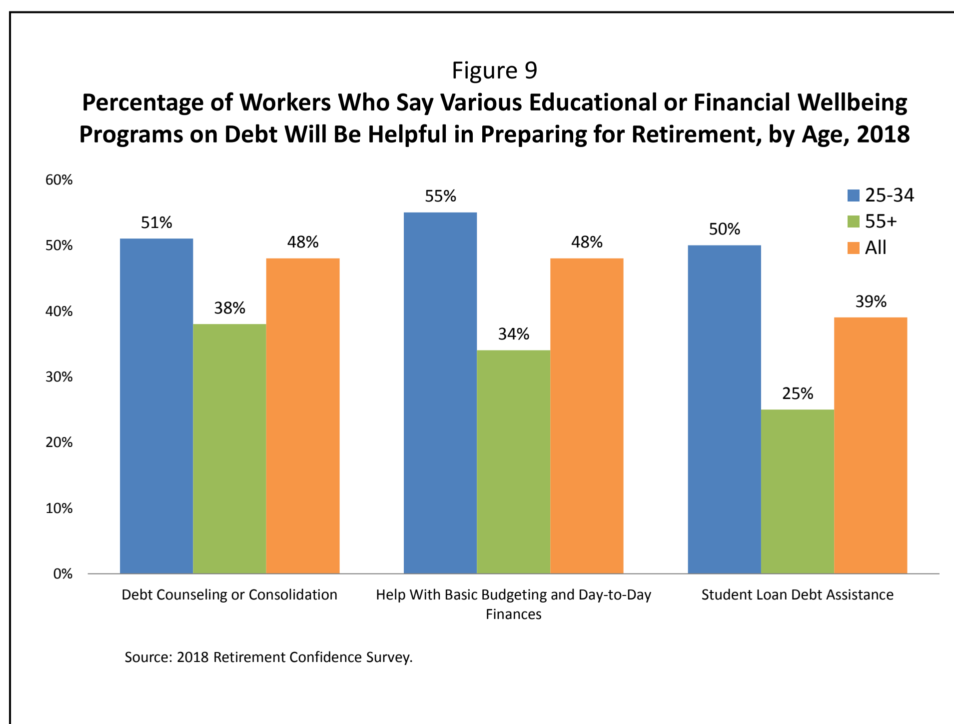
With the increased prevalence of student loans and the correlation of families with a student loan having a worse financial picture, employers are considering providing benefits to help their workers with programs that can help them pay for the loans. In the 2018 Retirement Confidence Survey, workers were asked if they thought various educational or financial wellbeing programs would help them prepare for retirement. Notably, for workers ages 25–34, student loan debt assistance programs were considered to be about as helpful as debt counseling programs or help with day-to-day finances and budgeting (Figure 9).

As has been shown, the student debt issue has grown significantly since the early 1990s, and it is likely to continue. Furthermore, the families with student loan debt also are less well positioned in other financial aspects, especially DC balances and homeownership. Consequently, employers are looking to find ways to help their employees with this financial issue as it appears to spill over into these other financial measures. Employees, specifically younger ones, say they would find student loan debt assistance programs through an employer to be helpful in preparing for retirement.

Figure 8
Percentage of Families Who Own a Home, by Student Loan Incidence and Age and Educational Level of Family Head, 2016



Source: Employee Benefit Research Institute estimates of the 2016 Survey of Consumer Finances.



Questions and Answers:

Can you talk more about the older cohorts having student loan debt and where it is coming from? Does this include Parent Plus loans, does it include co-signing on loans, or is this money for the individual who is taking on graduate studies or something later in life?

One of the big factors of the growing amount of student loan debt for the older cohorts is that they're paying for their children's education. They're taking on loans for their children in their name in any of the various loan programs, whether it's Parent Plus or whatever they may have.

For those ages 55 to 64, about 60 percent of families that have student loan debt are paying for their children's education, whereas only 40 percent are paying for their own education. Even for families with heads ages 45 to 54, there are about a third of the families paying for their children's education and two-thirds are paying for their own education.

However, many in these age groups are paying for their own education. In many cases, these are people who went back to school trying to advance their position by going to graduate school, trying for a first degree, or even trying for a second degree because they're changing jobs or changing careers. Consequently, there are many people with student loan debt who have come into it later in life.

Employer Programs for Student Loans: Neil Lloyd[2]

Just by looking at the press, you can realize that student debt is a key issue. In fact, there is a website, studentdebtclock.org, which actually monitors or estimates the amount of student debt. A couple of days ago, it showed $1.58 trillion, and today it was almost $1.59 trillion.

In this section, the role that employers can play to help people manage this problem will be discussed. Taking a step back and actually looking at some of the things that individuals can do on their own without needing the help of an employer, there are three types or services that come up. One is student debt assessments, which can in some cases be found on public websites (Figure 10). These services help individuals determine the best options for them to manage

their student debt with the key objective generally being to find different ways of optimizing and ideally reducing future payments. They could be recommending refinancing or could be recommending something else. This is a service that has actually helped people.

A second service is loan consolidation. This is a federal program that enables people to combine all their federal loans. It doesn't result in any direct savings, but it helps people through the ease of managing one larger loan rather than having multiple loans to manage.

Next is refinancing, which can also make the process a little simpler. This can really result in significantly reduced student loan payments, and there are two key reasons for that. One is that federal loan interest rates do not respond as quickly to market interest rates, so often you can refinance a federal loan into private loan. With interest rates declining, that can lead to meaningful reduction in student loan payments.

The second reason is that the interest rates applicable to private loans are a function of creditworthiness. As people's salaries and careers progress, particularly those who actually move up faster and have quicker salary income progressions, they can refinance their loans potentially more than once and further reduce interest rates as their creditworthiness improves.

Thus, there are quite a few things that can be done to help with student loan debt without employer assistance. However, the employer can take it much further (Figure 11). For example, employers can offer refinancing with a single provider of student loan refinancing. The advantage of this arrangement is that the programs tend to offer incentives to those individuals who refinance, and this credit to the loan account can be several hundred dollars. Consequently, it is a better outcome than if the worker had just refinanced on their own.

A variation of the employer offering refinancing is a marketplace platform. Instead of a single provider, a platform of a whole range of quotations and group of providers is offered. Again, a similar incentive payment of around $100 is placed into the account.

Figure 10
Student Debt – What Are the Offerings for Individuals?

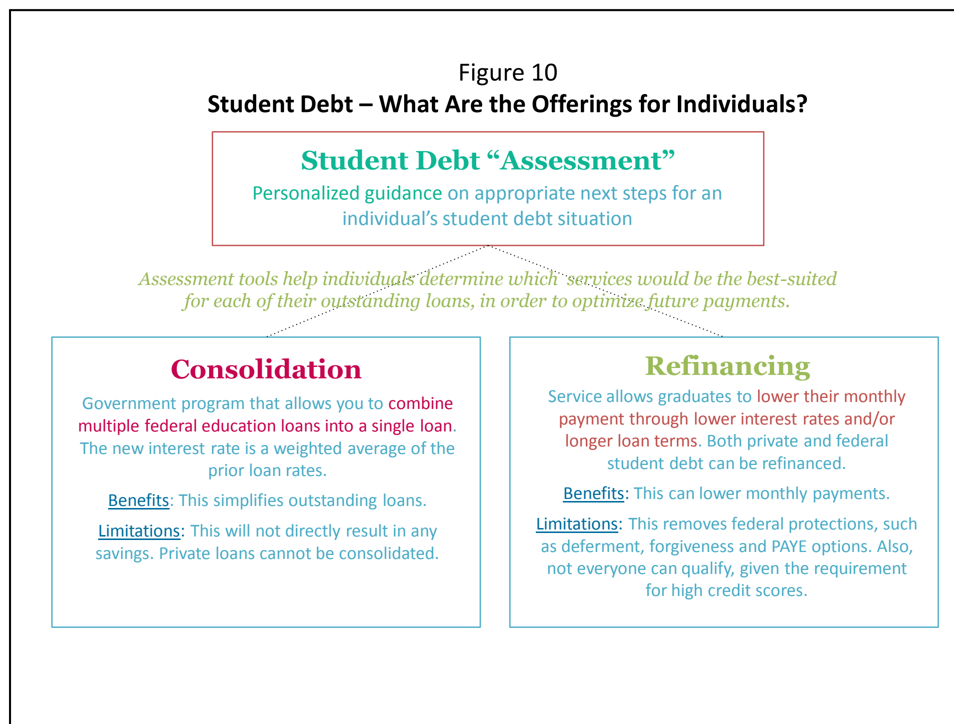


Figure 11

Student Debt – What Are the Offerings From Employers?

Refinancing *allow individuals to find better rates for student loans*	**Single partner**	Partner with one student loan refinancing provider
	Marketplace platform	Offer a platform with more than one refinancing vendor; "Kayak" search of student loan refinancing companies
Loan Management *platform that helps manage student loans and loan payments (from both employee and employer) in one place*	**Student loan direct payment**	Assist employees with paying down student debt by making a direct payment to existing student loan debt
	Student loan 401(k) match	Assist employees by simultaneously incentivizing employees to pay down student debt and encouraging employees to start retirement savings, by providing a pre-tax match to their 401k balance
Assessment Tools	**Guidance**	Generally found on loan management platforms; assists employees with determining appropriate steps in terms of consolidation, refinancing and repayment

Figure 12

Student Debt – What Are the Offerings From Employers?

		Employer Cost	Target User	Complications
Refinancing *allow individuals to find better rates for student loans*	**Single partner** **Marketplace platform**	Minimal (no direct cost)	Employees with student debt + high credit score	Refinancing federal loans may lead to losing protections
Loan Management *platform that helps manage student loans and loan payments (from both employee and employer) in one place*	**Student loan direct payment**	High; depends on amount of employer match	All employees with student debt	Does this discriminate?
	Student loan 401(k) match	High; depends on amount of employer match	All employees with student debt	Cannot be used for highly compensated employees (due to non-discrimination requirements)
Assessment Tools	**Guidance**	Low	All employees with student debt	N/A

On the loan management side, student loan direct payment platforms or payment programs are where an employer will agree to pay a certain amount — for example, $100 or $150 per month. In fact, it can be a lot more complex than that but simply a payment towards an individual student loan for a fixed period of time.

There are a range of different types of programs that could be put in place to focus on different concerns, such as attracting and retaining talent. These include program designs where the benefit increases with service. In this design, the longer people stay at the workplace, the better the benefit actually becomes. The first is often referred to as the student loan 401(k) match. This is slightly different to the other programs mentioned, as it tends to address a quandary that many people have: Do they pay back student debt or do they contribute to retirement savings?

Traditionally in 401(k) plans, if you contribute, the employer will match contributions into the 401(k) plan. However, with the student loan 401(k) match idea, employers will potentially accept that individuals don't have money to put into the 401(k), but they are paying off their student loans. Consequently, employers will match what is being paid on the student loans with contributions into their 401(k) plan.

The next type is student loan assessment and management tools. They actually also fit together with some of the platforms previously mentioned. Along with having a student loan direct payment platform, these management tools can tell the worker what to do with the $100 a month that the company is paying. For example, the tools could tell the worker which loan should it go toward, which loan should be paid back next, or suggest better restructuring arrangements, including if the worker is a good candidate for refinancing.

There are a number of issues for an employer to consider when providing these programs beyond some of the obvious ones, such as how much is the program going to cost the employer. Clearly budgeting is a big issue, but there are also other considerations that are more subtle. For example, it is important to understand who the arrangement will actually benefit, since not all of these programs will benefit everyone equally. In addition, there are some complications to watch out for in providing these programs (Figure 12).

Starting with a refinancing platform, it doesn't matter whether it’s a single partner or marketplace, the real advantage here is that there is limited effort needed from and typically no cost to the employer. However, the challenge comes in that refinancing can be a great help to those employees with high creditworthiness and whose situation is improving, but it's going to be less helpful to those with less attractive prospects. In particular, for those people with student loans who do not graduate, refinancing might help them, but it's less likely to be of a significant help. Therefore, the employer needs to be aware of that, because some employees actually do really well, while others have a different experience.

Another issue with refinancing is that if someone refinances a loan, they lose certain federal protections. Thus, when refinancing, people need to evaluate the pros and cons. It is nice having a lower interest rate and a lower payment, but the other protections on the student loan can be lost at the same time.

Next, the student loan direct payment approach, which appears to have captured the most attention in the press headlines, can also have complications. While only a small fraction of employers are offering these programs, there have been a couple of high profile examples that have shown the ability to attract and retain employees. However, the cost is high, because suddenly the employer is paying $2,000 per year for the student loan, and perceptions of discrimination of paying for only some workers’ debt and only a certain type of debt.

From talking to employers, there are two different responses to this challenge. One group is uncomfortable with the fact that they are now looking after people with a student loan, and what about all of people's other debts? They actually think it can be discriminatory when this issue comes up. The other group feels very comfortable with the idea because they believe they're addressing student loan problems, and the reality is most benefit programs in one way or another can discriminate by helping some people while not helping others. For example, medical benefits help the employees who are or become sick, while not helping the people who are never sick. That's the nature of benefit programs, but this debate does emerge among employers.

The final issue is that the direct payment benefit is fully taxable to the employees. If the employer pays $150 or $200 towards the loan, this amount is going to be taxed just as if worker's salary had been increased by that amount. Therefore, the program is not particularly tax efficient, which is uncomfortable to some.

Now, the other example mentioned is the student loan 401(k) match, which has become attractive to some, and avoids the tax problem because the benefit is a 401(k) contribution and that's not taxable to the employees. However, this benefit doesn't directly pay anything towards student debt. It does have indirect benefits, but it focuses on contributing to retirement savings for people who can't afford to contribute to a retirement plan because they are paying to a student loan. This type of program gained much attention recently because Abbott Labs received an Internal Revenue Service (IRS) private letter ruling from revenue, which clarified that the way Abbott structured their program didn't create a contingent benefit issue.

Yet if other employers are going to go down this path, there still are issues that will need to be examined. The private letter ruling was applicable to Abbott only, so other employers will need to avoid their own issues that the private ruling addressed. Coverage and non-discrimination issues can present problems, particularly if highly compensated employees are included. There can be other challenges but nothing that employers can't most likely resolve in some way, which it appears Abbott has done. Given the positive reaction to the Abbott case, more employers are anticipated to be exploring this type of program further.

One policy that has gained a great deal of attention is to create a tax incentive for the direct payment benefit (Figure 13). Thus, the $100 paid by the employer to reduce student loan debt wouldn't be taxable. Most of the proposed bills surrounding this topic seem to suggest a tax exclusion for the amounts paid would be similar in terms to that of tuition reimbursement benefits (a limit of $5,250). These bills propose to treat student debt repayments in exactly the same way as tuition reimbursement benefits up to the $5,250 limit.

Lastly, employers are looking to combine student debt repayment programs with other benefits, in order to address the discrimination concerns (Figure 14). For example, instead of employers offering $150 per month only for those with student debt, they might offer $150 for student debt *or* as a contribution to a 401(k) plan. This does address some of the discrimination issues, but the negative is it's a more significant amount of money to spend that has to be worked out from a budget point of view. Others are looking to combine their student debt repayment programs with tuition reimbursement benefits. College coaching has also been offered as a benefit, along with student debt repayment programs.

From all of these examples, there really are many ways to address the student loan debt challenges, and employers are looking at many different ways to address what is very much a challenging issue. As can been seen from monitoring the market of these types of benefits, there has been a great deal of innovation. This innovation has been the result of many employers starting pilot studies, to address the initial budget concerns, with a small group of employees to see whether it works with a small group and then expand out later. It minimizes the budget impact, but it also tests to see how successful the initiative is before a substantial commitment is made.

Questions and Answers:

Where might these programs go in the future? Any projection for those types of programs?

We're going to have to see. If you only go back 18 months or so, when speaking to clients about student loan direct payments, some clients wanted to do it, but quite often the tax issue came up, which made many uncomfortable. At that point, clients were more open to talk about the 401(k) match idea because they're more comfortable with it, so it seemed an alternative they would consider. However, for a number of reasons at the time, it didn't progress. Many wanted to see someone else do it, so it's really great for Abbott to sort of pave the way.

Figure 13
Student Loan Direct Payment Proposed Tax Incentivization

Currently, student debt repayment assistance is taxable as compensation.
Several bipartisan bills have been proposed with the objective of creating a tax incentive for employers and employees utilizing this benefit.

Currently: Section 127 of the Internal Revenue Code provides a $5,250 per year tax exclusion to each employee that receives tuition assistance from their employer. This does not apply to employer-sponsored student loan payments.

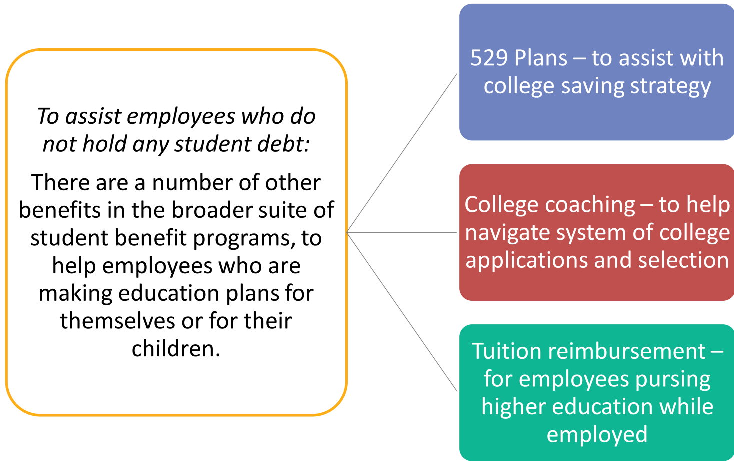
HR 795 H.R. 795, the proposed "Employer Participation in Student Loan Assistance Act," would extend the $5,250 tax exclusion to any payment by an employer….on any qualified education loan" on behalf of their employees.

S 796 S.796, the proposed "Employer Participation in Repayment Act of 2017," is the Senate equivalent of HR 795, extending the $5,250 "tax exclusion for employer-provided education assistance to employer payments of student loans."

HR 1656 "Higher Education Loan Payments (HELP) for Parents and Students Act" would expand the tax exclusion to cover "(1) employer payments of principal or interest on loans for higher education expenses incurred by an employee, and (2) any qualified dependent 529 contributions made by the employer."

Changes like these could significantly increase the popularity of student debt repayment plans.

Figure 14
Combination Programs



Yet there are other issues that come up. First, realizing that it doesn't quite address student loans but instead more addresses retirement savings. Furthermore, will the reactions to a 401(k) match be as positive as that of direct payments? Second, discrimination issues are still present for highly compensated employees, so employers may need to think about other types of arrangements. Thus, the expectation right now is a great deal more questions.

The private letter ruling didn't say much that wasn't already thought through, but the issues surrounding a student loan 401(k) match program is not a one-paragraph answer but a multiple-page answer. Consequently, there are many issues to overcome, as the private letter ruling mentioned, so it's great that Abbott has done it.

We will have to see. Some people are still wary of mixing the 401(k) plan with student debt. But we believe there will be more traction with these ideas. Definitely, more conversation of what's ahead with what appears like more companies will be addressing these issues, which will provide more feedback on what is working and, therefore, where the programs are headed.

City of Memphis' Student Loan Repayment Program: Alex Smith

The City of Memphis has over 8,000 employees, roughly 6,500 full time and 1,500 part time. We started working on our student loan contribution program in early 2017 and actually launched it in July 2017. Thus far we've had a 94 percent satisfaction rating with our participants (Figure 15).

Going into this endeavor, we already had a tuition reimbursement program. As a government entity, we were looking for differentiators to help us in recruiting and retaining talent for the city.

In previous years we had seen an uptick in attrition, particularly in police and fire, and with the new administration coming in we wanted to look at innovative ways to attract talent and make us more competitive against other agencies. After doing some research, and knowing generally about the student loan challenges people face, we decided to venture out in looking into a student loan program. We were able to partner with tuition.io to execute our program.

It's been a pleasant surprise for us on how successful the program has been thus far and most importantly how helpful it has been to our employees. Our average participant age is 42 years old.

Many people think student loan debt is a young person's issue, and even for me I suspected that our average participant age would be somewhere in the low 30s, and so I was really surprised it was actually at just under 42.

From a largest division participation standpoint, our police division at 41 percent was the highest. I thought that our law division, finance division, or some of our more professional areas would have a higher participation in the program. The fact that our boots-on-the-ground police division is actually our highest participant was also surprising.

Our employees had nearly $20 million in student loan debt, with an average balance of just over $42,000. The average salary for the City of Memphis employees is around $45,000 a year, so you have people who are possibly carrying more student debt than what they actually make in one year. That for me was a startling statistic and helped me to see that student loan debt is not only a white-collar issue, but it is a blue-collar issue. It's impacting more people than I would have ever imagined.

Our student loan debt program currently has more than 400 employees that are participating or about seven percent of our eligible participants. As of this date, 249 years in payments have been saved for our employees for a total savings of $232,840.

Our program is a student loan contribution program (Figure 16), and we are definitely at the leading edge in this space. The City of Memphis is not only the first public sector entity but by my understanding is still the only public sector entity that actually has such a program.

Figure 15
City of Memphis Overview

City of Memphis Employer Profile

- 8000+ employees
- Began using Tutition.io in July 2017 – 94% satisfaction rating with participants
- Average Participant Age: 41.7
- Largest Division Participation: Police (41%)
- $19,992,202 in Student Loan Debt, $42,627 Average Balance

Participants	Years	Money
443 Employees	249 Total Saved	$232,840 Total Saved

Figure 16
City of Memphis Student Loan Contribution Program

City of Memphis is one of 4% of U.S. employers and the first public sector entity to help employees to pay down their student loans

Eligibility
Full-time employees who are not temporary or seasonal

Waiting Period
1 year of service

Eligible Loan Scenarios
Loans in forbearance, grace period, or deferment

Loans consolidated with someone else

Loans held under participant's name

Monthly Contribution Amount
$50 per month

No lifetime maximum

Ineligible Loan Scenarios
Loans that are in collections or default or past due

Loans in someone else's name or used to pay for someone else's education

Educational lines of credit

Parent Plus

In terms of eligibility, we offered the program to our full-time employees who have at least a year of service with us. It's for loans that are actually in their name and that are ready to be paid. We contribute $50 per month. There's no maximum on it. But we essentially make it an equal opportunity ability for everyone to participate in this benefit.

The average debt is quite fascinating when you look across our divisions. As I mentioned, police services is the biggest division where we have participation (Figure 17). Their average debt is more than $40,000 a year. The average salary for a police officer right now is about $56,000 a year.

Across the board, it's just fascinating the amounts of debt. People in our city attorney's office — where all of our attorneys sit — have the highest debt. However, student loan debt issue is not just a white-collar issue. In Figure 17, you can see that we have debt across all of our divisions and municipal government, so it's an "everyone" issue.

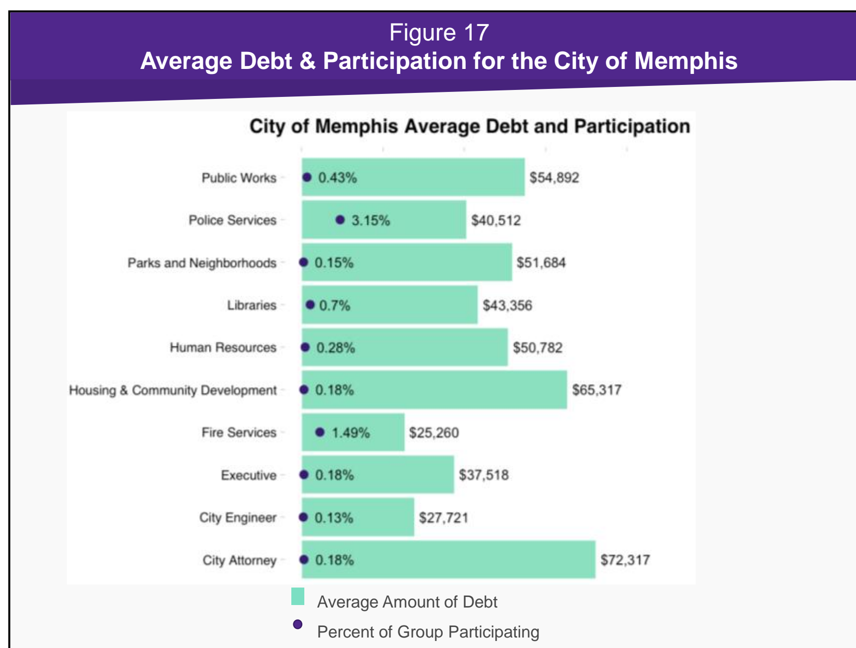
Going in, I thought the debt would be skewed toward our younger employees, but the fact that we have employees from the age of 21 all the way to 64 who have student loan debt was startling for me, particularly when you talk about retirement (Figure 18). People are struggling not only with having to pay student loan debt but also meeting other financial obligations. On top of that, they then try to save for retirement.

For the City of Memphis, we definitely see the student loan contribution program as being an important benefit. However, we also consider it as a financial wellness conversation for our employees, looking at how we can truly help them make wise decisions financially while also helping to alleviate some of the burden that they have from day to day.

We have surveyed our employees to see whether or not there is a difference between those enrolled in the program vs. not enrolled in how they perceived their experience at the City of Memphis. For the first question — I'm likely to stay with the City of Memphis — we see a drastic difference between how people who are enrolled feel vs. those not enrolled. We have over 69 percent who agree or strongly agree that they are likely to stay vs. a smaller percentage with those not enrolled (Figure 19).

When asked, "Would I recommend City of Memphis as an employer of choice," we also see a startling difference between those that agree and strongly agree to that question among those that are enrolled vs. those not enrolled. This shows that this program does make a difference for our employees, not only financially but also in their engagement with us as an employer. Thus, we're looking to continue to invest in the program as well as other financial wellness tools to help make a difference for our employees.

Figure 17
Average Debt & Participation for the City of Memphis



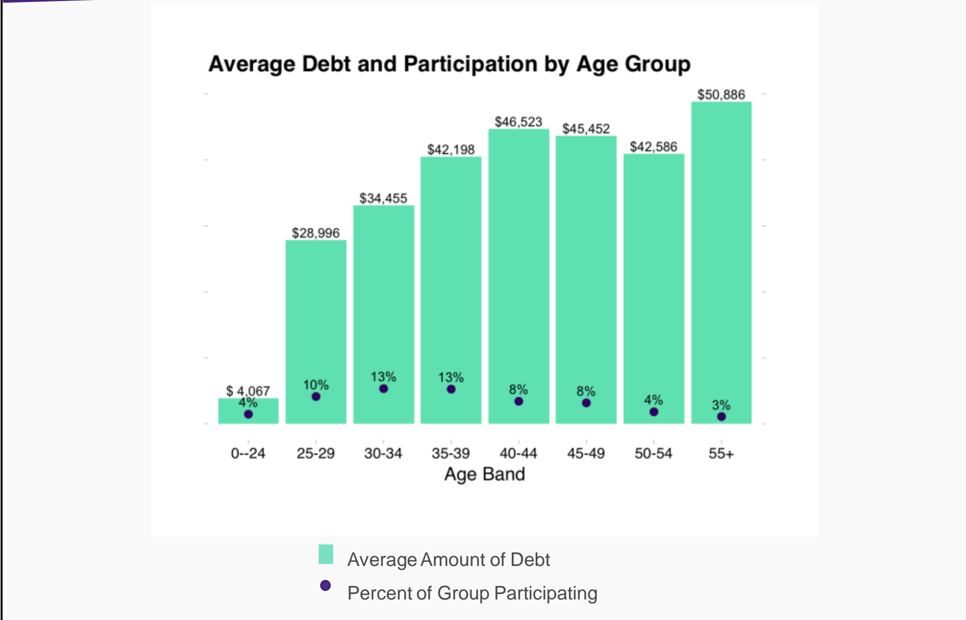


Figure 18
Participation & Debt by Age Band

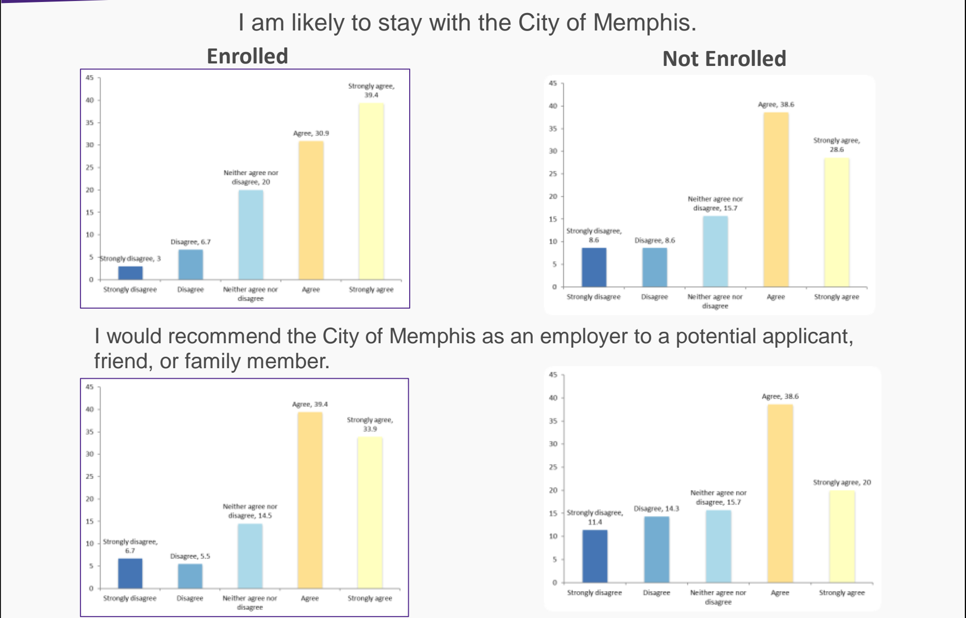


Figure 19
Engagement Results

Questions and Answers:

When you went in to seek approval for this program, what are some of the obstacles that you ran into, and if you were to give advice to others who are considering offering these types of programs, what would you advise?

From a management standpoint, one of the first things that we did was talk about it with our senior leadership team. As Chief HR officer, I report directly to the mayor and sit on the senior leadership team. As a part of my weekly presentations in that meeting, I brought this forward and discussed it with our senior leaders. Once I received their support for piloting the program, we actually piloted the program internally with a small group to see whether or not there was interest, whether or not there was an understanding and even excitement about the program.

We received very positive results from the pilot of about 90 days. After that, we were able to bring it into our budget and get it approved by the city council to bring the program fully forward in our new fiscal year.

In terms of challenges, first, certainly understanding the technology and making sure that it would work seamlessly with the current applications that we have was one piece. The second piece was communication and helping employees understand the benefit, and why it would help them. In particular, we wanted them to understand that it wasn't about the city paying their actual student loan payments but that this was a contribution towards the principal. This was an important talking point, as well as explaining what loans were actually eligible for the program.

I think the last piece that has been difficult is we wish we could do more from a budget standpoint. We're only able to do so much. You have to properly set expectations in terms of what the benefit is and what's the most fiscally responsible amount of budget that you can set aside for this type of program. Based on our budget, $50 a month is what we can do to be able to manage the program properly. Certainly if I had more money I could do more, but that is where it is.

Do you make the payments directly or do you have an outside vendor who is managing the entire program for you?

We have a partnership and through our partner's platform we're able to manage the program. Essentially the way it works is that we pay the vendor and then the vendor pays the student loan companies directly. The vendor is actually managing and sending the actual contributions directly to the student loan vendors.

Do you have any closing comments or suggestions for the listeners?

Yes, I think number one, at the heart of this, it is about taking care of your employees. The student loan debt issue affects everyone, not just top executives but also janitorial staff and everyone in between. I think it's important for those particularly who are HR professionals, who care about culture and climate of their organizations, to be thinking about this type of program as a means of helping their employees with financial wellness.

I also want to clarify a point about our program. The loans are for our employees who have incurred debt. The loans can be eligible if consolidating if it's under the participant's name. Loans that are used to pay for someone else's education are not eligible.

Question and answers from the follow up interview with Alex Smith.

What are the eligible loans? Parent PLUS loans?

Parents PLUS are not eligible. It must be in their own name and for their own education.

What did it take to have the program approved?

The process for that was working with our vendor to develop a proposal and sharing it with the senior leadership team at a meeting. As part of my conversation with the leadership team about the program, I talked about the pluses and minuses and asked if I could do a pilot of the program in March of 2017. I received approval from the mayor and the

senior leadership team to do a pilot for 90 days. We determined that it was a success. Then once our budget was approved for funding of the program, we launched our program on July 1, 2017 citywide.

When you looked at providers of the program, how did you evaluate them and determine that tuition.io was the provider to use?

There weren't many players in this space. We found out about tuition.io, so we engaged in conversation with them about what they were offering. With us being the first public sector entity to do this, we had to go with a vendor who had experience in the private sector. They appeared to be the most knowledgeable about doing this program in the private sector. We went with their private sector experience and their ability to work with our team. We do not do a formal RFP process.

How does the City of Memphis handle the administration of the student loan debt program? Do you pay the loans directly or does the vendor do so?

The vendor is the intermediary between the student loan providers and us, so that they link the employees' accounts to the program. Through their platform, they manage that entire process. The City of Memphis only has to write a check to them for the actual costs of the benefits of the program. They take care of the rest.

The program provider only pays the benefit provided by the city. The employee must make their own payments separately from this benefit. The benefits are only a principal payment, so the employee must remain current with their own payments. The vendor is able to check to see if the employee is still making payments. If they aren't, the employee is no longer eligible. Thus, the payments from the city will stop.

How are you paying the vendor?

There is an initial startup fee. After that, we are invoiced a monthly amount that includes the amount of the benefits paid plus a monthly fee to the vendor.

It is one of easiest programs to implement, as the focus is paying the benefit and communicating the benefit to the employees. The vendor does all the work with the student loan companies.

You show retention is up. Did you do a retention agreement to participate in this program?

We chose to <u>not</u> do an agreement because of the small amount of money that it is. However, I know other organizations do choose to do that. We are able to show — just based on who is participating — that participants tend to have a higher level of engagement and retention than those who did not register for the program.

If you were talk to other employers, what would you tell them?

The advice I would give them is that they should definitely do a pilot before launching a full program. It is important to learn about the employee population and how they would use the benefit.

We did have a few surprises, as we thought this would primarily be used by higher wage earners. However, some of our lowest wage earners were the ones who had some of the highest student loan debt.

Don't go into the program with many assumptions until you get to know your employee population, and make sure you budget the right allocation given what might be found in the pilot.

Who qualified for the pilot?

We used the HR division, as it has 80 employees with both exempt and nonexempt employees. You had to be a full-time employee within the department. We saw who was interested and even if there *was* interest. The pilot gave us the evidence we needed to know if it was a viable benefit.

Would you have done anything differently?

No. I think we chose the right partner, and our communication plan was good. We received the benefit of it that we wanted, so it worked out well.

Do you offer college coaching for the employee or other family members?

We do not offer a formal college coaching program.

You are starting to offer retirement planning and financial wellness counseling. Is this offered through a single entity or more?

We have two right now. One is for our retirement program, and they offer group courses as well as one-on-one coaching for our employees.

Our other partner provides general financial counselling to our employees.

What about other types of debt such as credit cards? Are people upset if they have paid off their student loans but have other debt?

I haven't received negative feedback. People have been very appreciative of the program. I haven't received requests for relief for any other debt.

Do you believe the student loan program has helped your workers add more to their DC plans? Hardship withdrawals or loans?

It certainly has helped with the overall financial health or wellness of our employees. We do not have data on DC plan changes from the program.

Any other financial wellness programs? Emergency savings programs?

We recognize the importance of financial wellness for our employees. We are exploring other options but nothing specific with regard to emergency savings.

We have a tuition reimbursement program that we are looking at to revamp for best practices. Also, basic financial literacy to help our employees around various financial concepts to make sure their household understands these issues.

Conclusion

Clearly, student loan debt is going to continue to be an important issue for workers and employers, as it affects more than just young people. In recent years, a growing share of those with student loan debt is coming from families with heads ages 40 or older. This was borne out in the City of Memphis' program, as there was significant interest and take-up among their older workers. Consequently, this issue has expanded its reach across all age groups.

As the cost of higher education continues to escalate, more workers across all ages will have student loan debt. Thus, as Neil Lloyd pointed out, employers looking to attract and retain workers, many of whom have this debt because they're the ones pursuing college and/or advanced degrees, will need to develop creative programs to address one of the more pressing issues for college educated workers.

Some employers such as the City of Memphis and Abbott Labs have already developed programs to address the student loan debt issue. As workers recognize the lifelong financial consequences of having student loans, workers will look for employers who provide student loan programs. If workers don't have help, catching up for many will be very difficult to do.

[1] These results are a summary of those reported in Craig Copeland. "Student Loan Debt: Trends and Implications." *EBRI Issue Brief*, no. 453 (Employee Benefit Research Institute, July 9, 2018).
[2] All of the slides and remarks from Neil Lloyd's presentation have the following disclaimer.

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