

# Employers Can Now Help Pay Off Student Loans Tax-Free

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On December 27, President Trump signed into law the Consolidated Appropriations Act 2021 which extends until 2025 the ability of employers to repay eligible student loan debt up to \$5250 annually without raising the employee's gross income.

This \$5250 annual allowance was already there for tuition assistance programs for employees but only applied to education approved and taken after hire. The change now allowed student debt accumulated prior to employment or outside a formal education reimbursement program to be given the same tax advantage.

Most large healthcare providers such as hospitals, large physician groups, etc. already have a education reimbursement program and it is easy for HR professionals to see how student loan repayment could easily be included into those programs.

## Add it to your benefit or recruitment strategies?

HR professionals can also see how it could be used as a great recruitment benefit. This may be true whether your organization is large or small. If you are offering sign-on bonuses for any positions, this may be something to offer the candidate who is coming to you right out of school. This could be linked to a work commitment the same way sign-on bonuses are.

Other organizations such as Raytheon, are piloting creative programs. For employees who cannot afford to repay student loans and contribute to the company's 401(k) program, the employer is making a contribution to the employee's 401(k) that matches the student loan repayment if the loan repayment amount reaches the percentage of the company match.

I can think of many ways that employer repayment of student loans could be

added to a benefit program. While it would not be attractive to older employees or those without student debt, it appeals to millennials and employees just out of school. An organization could provide optional sign-on benefits, or it could easily be included in flexible benefit programs as a choice.

So, should we all launch programs to pay off employee student loans? Not so fast!

## **President Biden's Executive Order**

On his first day in office, President Biden signed an executive order which suspends payments,, stops collection, and freezes interest on all federal student loans until September 30, 2021. This extends a program began under President Trump in the Spring of 2020.

It is important to note that this only applies to federal student loans and not private student loans.

## **Hold off, plan or go forward?**

Additionally, at the time of this writing, AOC and many other congressional delegates are advocating for forgiveness of \$50,000 in student loan debt. President Biden does not support that level but does support cancelling \$10,000 in student debt and freezing interest.

The argument for the lower amount is backed by data that shows those having the most difficulty repaying student loans are those who owe lesser amounts. Generally, it is those who did not obtain a bachelors degree or higher. They either quit school before completion or obtained a lower degree or certification with reduced earning power.

My guess is that eventually Congress will approve student loan forgiveness of somewhere between \$10K - 25K.

Until it all shakes out, it would make no sense for an organization to make student loan repayments for those who owe less than \$10,000. Currently, payments are suspended and it is likely that at least \$10,000 will be forgiven. It would be throwing money away for an organization to be making these payments. that are likely to disappear.

So, should an organization be making any student loan repayments at all or should it wait until this is all figured out?

## Two scenarios for continuing payments

If an organization already has or is considering making these payments, there are scenarios in which I would continue making payments.

1. **Highly skilled staff with student debt in excess of \$50,000.** Doctors, some advanced Nursing programs, even some PT or Radiology students who pursue advanced degrees, can easily amass this debt. We know that most new physicians come out of school with massive debt. A repayment program can be a huge recruitment/retention tool.
2. **Employees who have a private student loan.** While private student loans are less common than the federal loans, they are out there. The executive order signed by President Biden only addressed federal loans. Employees with private loans continue to make payments, accrue interest, etc.

Some may argue that highly skilled professionals can often “work off” their federal debt by working in under-served areas. This is true but is often more difficult than it sounds.\

A good friend of mine ran recently became a Nurse Practitioner with \$75,000 debt. He agreed to serve in a remote area in the Southwest. Unfortunately, through no fault of his own, the facility closed. The next one had quality of care issues. He ended up at a larger hospital in a metropolitan area and is back to making his payments (at least he was until the Spring of 2020).

What do we know?

1. Collection of federal student loans are suspended until September 30, 2021.
2. We have a five year window in which organizations can help pay of student debt with no tax consequences to the employee. It will probably be made permanent.
3. Some debt will be forgiven.

## Start planning now

While education assistance can be an expensive benefit and many smaller organizations cannot afford it, the data tells us that crushing student loan debt is an important issue to younger workers. I would look real creatively at ways to include this in any benefit or recruitment/retention package.

Sign-on bonuses could include this as an option rather than cash payouts. Need to retain physicians? Link it to staying with the organization for a set period of time.

Does your organization contribute to a TDA or 401(k) program? Many smaller organizations do so. Rather than match employee pension contributions, you could do as Ratheon did and match employee's student debt payments.

There are many ways this could be used and so far it hasn't gotten a lot of attention. Use this temporary hiatus to began determining how it could benefit your organization in terms of retention, recruitment, employee satisfaction. When it is finally resolved politically, the first organizations with a plan in place will be way ahead of the competition.