A Deep Dive Into Student Loan Repayment Assistance

Student Loan Repayment Assistance (SLRA) as an employee benefit has been growing at a steady pace, but it's expected to really soar in the coming year. If you're wondering why and want to learn more, you've come to the right place. Read on as we uncover the details behind this hot new program that is benefiting both employee and employer.

What is Student Loan Repayment Assistance (SLRA)?

Repayment assistance can include multiple points of support. Employers can offer expert loan counseling, a refinancing referral program, or make supplemental contributions to a 401k. In this article, we're focusing on an employer contribution toward an employee's outstanding student loan balance.

How does SLRA typically work?

Employer payments can be made to employees in a program that's similar to tuition reimbursement, but many organizations are making their contribution directly to a student loan lender or servicer. The employer payment usually supplements an employee's own payment thus making a bigger impact on the debt, reducing the time to pay it off and the interest paid.

What percent of employers are offering this kind of program?

In 2019 the Annual Society of Human Resources Management (SHRM) Employee Benefits Survey reported that 9% of employers were offering student loan repayment assistance. SHRM went on to project that 32% of employers would be making some sort of payment toward their employees' student loans by 2021. Over the last year numerous well-known employers have announced their commitment to reducing the burden of student loan debt by paying down their employees' loans.

Why is SLRA one of the fastest growing non-health benefits?

It's a win-win for employers seeking to build and maintain the highest quality team, and a stress-relieving perk for employees who have student loan debt.

- Employees will feel less financial stress, more easily reach financial goals, and be able to save for retirement.
- Employers can compete for and retain a quality workforce and improve productivity and engagement levels.

Payments, up to $5,250 annually, are tax-advantaged within the context of an Education Assistance Program (EAP), meaning they do not qualify as taxable income to the employee nor as a taxable expenditure to the employer.

Aren’t student loan payments currently on hold?

Yes, student loan payments on most federal loans have been on pause since March 2020. The payment suspension was implemented through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and three consecutive Executive Orders. The most recent order extends the payment freeze through September 30, 2021. Additionally, most of the affected student loans have a temporary 0% interest rate.

Why make payments if they've been suspended?

While payments aren’t required and no interest is accruing on most federal loans, the suspension does not apply to private or all loan types. Moreover, even when payments are suspended, payments that ARE being made are making a huge difference. Student loan balances are reducing more quickly. Loan servicers are applying the full payment amount to the principal balance (after any interest that accrued prior to March 13, 2020 is paid). It's an incredible opportunity for employees to reduce their loan balance and the amount of long-term interest paid on the debt.

When did employer-made student loan payments become tax-advantaged?

The opportunity for an employer to make a tax-free payment toward employees’ student loans started with the CARES Act. The legislation included a temporary provision permitting employers to amend EAPs and pay up to $5,250 per year on a tax-free basis toward an employee’s loans. The CARES Act amended Section 127 of the Internal Revenue Code but the provision was only through December 31, 2020.

Has the tax-free status continued beyond 2020?

Yes! The Consolidated Appropriations Act, 2021 (CAA) was passed by Congress and signed by the President on December 27, 2020. One of its provisions (in Section 120 of Division EE) was to extend the tax-free advantage of employer payments, up to $5,250 per year, through January 1, 2026. The CAA continued what the CARES Act started, affirming that SLRAs are here to stay (at least for the next 5 years).

What are the details behind this provision, where do I go to learn more?

The CARES Act expanded the scope of Sec. 127 of the Internal Revenue Code, which addresses employer-paid tuition benefits. The Cares Act stipulated that the $5,250 amount that employers can annually contribute tax-free for tuition assistance can be extended to student loan repayment assistance. According to Labor & Employment lawyers at Employment Law Worldview, an employer can "pay for all or part of an employee's Qualified Education Loan as a tax-free benefit, provided that benefit is part of an employer's education assistance program (EAP)." The $5,250 cap is now the combined annual limit for education assistance payments–whether for tuition or student loan repayment.

What is a Qualified Education Loan for this purpose?

Both private and federal education loans obtained to pay for specific higher education expenses—including tuition, fees, room and board, books, supplies, and other necessary expenses—are covered.

How do employers take advantage of this new law?

Sec. 127 requirements include:

1. The program must be a separate written plan of the employer for the exclusive benefit of its employees to provide such employees with educational assistance. Notably, the CARES Act does not provide an exception to this rule, so employers might consider adopting a written educational assistance plan or amending their existing written educational assistance plan to incorporate this student loan payment benefit before taking advantage of Section 2206.
2. The program must benefit employees who qualify under a classification set up by the employer that is not discriminatory in favor of highly compensated employees.
3. No more than 5% of amounts paid by the employer for educational assistance during the year can be provided for individuals who own more than 5% of the stock or capital profits interest in the employer.
4. The program cannot provide eligible employees with a choice between educational assistance and other remuneration included in gross income.

5. Reasonable notification of the availability and terms of the program must be provided to eligible employees.

If your company doesn't have an EAP, organizations like SHRM can provide guidance and resources to help you design and manage an educational assistance program.

When you're ready to introduce SLRA to your employees, we encourage you to find a comprehensive solution to help you reap the rewards of adding this program to your arsenal of benefits.

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How does SLRA impact borrowers in an Income Driven Repayment (IDR) Program?

Student loan borrowers who are using an IDR plan are subject to annual evaluation of their Adjusted Gross Income (AGI) per their federal tax return. Most IDR payment options (e.g., REPAYE, PAYE and IBR) establish a monthly payment that is a percent of the borrower's discretionary income. If the employer's payment is part of an eligible education assistance program and is not taxable, then it will not be included in the AGI and not impact the borrower's monthly payment.

What impact would SLRA have on borrowers who are pursuing Public Service Loan Forgiveness (PSLF)?

People enrolled in PSLF must meet specific criteria. They must make 120 qualifying monthly payments while working full-time (at least 30 hours per week) for a qualifying employer. Most qualifying PSLF repayment plans are based on income. Extra payments won't make borrowers eligible for PSLF sooner. Extra payments will reduce the total loan amount that is forgiven after 120 monthly payments. Note: According to the IRS, student loan amounts forgiven under PSLF aren't considered income for tax purposes.

We hope this information has helped you understand more about the SLRA. If you have additional questions about how we can help you, contact our Sales Reps. We're happy to help.

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