

HR Insights

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Helping Employees Prepare for Student Loan Repayment

The student loan repayment pause has given borrowers a break from paying for a few years, but starting this October, student loan payments will resume. This comes at a time when many American workers are feeling financially strained. Employers are poised to help employees prepare for repayment and help reduce their emotional and financial stress.

However, employers must be cognizant of finding the right balance for their workforce. While loan relief could help organizations attract and retain talent (often younger generations) impacted by student loans, repayment assistance may seem unfair to workers who do not have such debt.

This article highlights the state of student debt forgiveness and suggests ways employers can help their employees prepare for loan repayments.

Current State of Student Loan Forgiveness

On June 30, 2023, the U.S. Supreme Court struck down President Joe Biden's student loan forgiveness plan, which means borrowers must resume making student loan payments as soon as Oct. 1, 2023. According to the U.S. Department of Education, interest on outstanding federal student loan balances will begin on Sept. 1, 2023. In response to the Supreme Court's decision, the Biden administration announced that it would continue to pursue student loan relief measures through the Higher Education Act. However, this process will likely take months.

The Supreme Court ruling may have a detrimental effect on employees struggling with student debt. It may

increase financial stress and instability, worsen mental health and decrease job productivity.

Preparing Employees for Repayment

Student loan repayments are set to resume as early as October. While many organizations have been waiting to see what happens with the student loan relief measures, there is now some clarity for employers and employees alike.

Employers often play a crucial role in helping employees navigate student debt challenges. Additionally, organizations that provide student loan benefits may experience improved employee attraction, retention, productivity and satisfaction. To help affected employees get ready to resume paying off their student loans, employers may consider the following strategies:

- **Offer student loan repayment assistance.** According to a recent Employee Benefit Research Institute survey, 17% of large employers offer student loan debt assistance and another 31% plan to do so. Repayment assistance may take many forms. Through the Coronavirus Aid, Relief and Economic Security Act (or CARES Act), employers can offer up to \$5,250 in student loan repayment as a tax-free benefit to employees every year through 2025. Additionally, employers can provide lump-sum or recurring payments to

assist employees financially. These payments may come in the form of signing bonuses or monthly, quarterly or annual payments. Employers can also link student loan assistance to retirement savings or allow employees to apply unused paid vacation time toward their student loans.

- **Provide financial literacy and planning services.** Employers are uniquely positioned to offer employees the resources and support to understand and strategize their payments. Student loan payment counseling could help educate and guide employees as they figure out how to repay their loans and balance other expenses. Sharing educational resources, such as loan payoff calculators, or providing financial counseling and webinars are cost-effective ways to empower employees to make financially healthy decisions. Additionally, these services can reduce employees' stress, improve mental health and increase workplace productivity.
- **Create student loan contribution plans.** Similar to retirement plans, these contribution plans enable employees to put a designated amount of their paycheck toward their student debt with a match from their employer. By automating the decision to put money toward student debt repayment, these plans can help employees save without the temptation to spend their money elsewhere.
- **Promote retirement savings.** Alternatively, some employers contribute to employees' retirement accounts when they apply eligible income to loan repayments that would have gone to their 401(k). This frees up funds, allowing employees to pay off their loans faster and build up their retirement savings for the future.
- **Offer tuition assistance.** Although it won't help employees pay off past debts, providing tuition reimbursement or tuition assistance can prevent employees from going into

student debt for future education. These programs can show employees they're valued by their employers, potentially increasing employee engagement, satisfaction and retention.

Student loan repayment initiatives may bring about legal challenges, so employers must consult with local legal counsel before making any decisions or changing benefits offerings.

Summary

Student loan repayments are set to resume in October 2023, so employers can start helping employees prepare now. Employers can support employees in many ways, from formal benefits offerings to third-party resources. Every workplace is different, so employers must consider their unique workforce's needs and desires before making any benefits or offerings changes.

Contact us today for additional workplace resources.