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## Behind the student loan debt crisis, new benefits solutions

By Sarah Min

Two years ago, when Scott Thompson took over tech startup Tuition.io as chief executive officer in 2016, he felt as though he had to educate his clients about his product — a new benefit, managed by his software company that allows employers to help their employees repay their student loans.

Today, he doesn't feel that need. When he recently walked into a Fortune 20 company with a stack of documents, his prospective clients said they understood his pitch and hardly required the introductory material. "I don't evangelize anymore. We very rarely educate any longer," Thompson said.

When Tuition.io was founded back in 2011, it was among the first of its ilk to tap into an hitherto unforeseen business opportunity in employee benefits. It surveyed the landscape, at the gaping chasms of American student loan debt, — now at a staggering \$1.5 trillion and second only to mortgage debt for households in the United States, — and offered a novel solution. Tuition.io would be an online management system for student loans and, what's more, it would target employers to set up a student loan repayment plan.

When employees make payments towards their student loan debt, their payments can be matched by the employer, perhaps \$50 or \$100 per month, for maximum lifetime contributions of several thousands of dollars per employee towards their principle.

Often touted as the new 401(k) of the millennial era, student loan debt repayment is likely to become the hottest new benefit in future workplaces, as companies figure out innovative ways to recruit and retain talent in a low unemployment economy. With so many young workers mired in student debt, the ramifications have rippled through the economy as debt holders fail to save for retirement, buy homes, get married and otherwise held off on financial milestones to pay down student loans.

"Paying off student debt is something all of America is going to decide to get aggressive on and go after. It's a huge number. We can only hope to contain it and hope to get it down," said Aaron Pottichen, president of retirement services at Texas-based CLS Partners.

However, the ramp up of the benefit may be a while in coming. Only 4 percent of companies in America offered the benefit in 2018, according to the Society of Human Resources Management, and it will likely not be adopted until demand increases and it becomes a tax advantaged incentive for more companies.

## A brief history behind the 401(k) revolution

The new student loan benefit is modeled on the 401(k) for retirement. The 401(k) revolution actually started back in the 1980s, after Congress passed the Revenue Act in 1978 and after the Internal Revenue Service allowed employees to make contributions to their 401(k) plans through salary deductions. The early adopters of the the 401(k) back then were large companies, like

Johnson and Johnson, for whom the plan was attractive, because it was a cheaper alternative to offer employees than the more cost-intensive pension plans.

“The economy between 1945 and 1975 was growing gangbusters and everyone was doing well and the stock market was doing as well, too. So, the employers as a group did not have a lot of trouble funding their pension plans,” said Chris Chen, a financial planner and founder of Boston-based Insight Financial Strategists.

In the 1970s, however, slower economic growth meant the pension plan also became more expensive for employers. Essentially, a pension plan is a defined benefit plan, meaning it’s funded by employers, whereas a 401(k) plan is a defined contribution plan, meaning that it is primarily funded by the employees. The 401(k) gave employees more flexibility to seek different employment, but a pension plan guaranteed employees a monthly check in retirement.

The 401(k) plan changed the way that Americans worked, saved and retired. In 2016, according to the Department of Labor, the number of people in defined contribution plans were 100 million versus 36 million participating in defined benefit plans; In comparison, in 1975, only 11 million were in defined contribution plans versus 33 million in defined benefit plans. Today, however, as student loan debt impedes and changes the way Americans save for retirement, Americans are at the cusp of another benefits revolution.

“The idea is a good thing. If I give you a bunch of money instead, you’re going to put money into rent, maybe an IRA, maybe health insurance and maybe for some of your student loans,” Chen said. “But then on the other hand, you might not, because people are funny with money.”

### The plight of student loans

Kaliym Toppin, 28, took about seven years to graduate with his undergraduate degree. After stints in Temple University in Pennsylvania and Prince George’s Community College and Howard Community College in Maryland, he finished his degree at the New York City College of Technology. After working in New York City, he moved to North Carolina last year to marry his wife and works as an IT support analyst at Relias Learning in Raleigh.

Toppin regrets failing to understand the impact of student loan debt when he was younger and in school. If he could go back, he wishes he had searched more for scholarships or grants to lessen the amount he had borrowed.

Toppin, who earns \$2400 every month, or \$39,000 annually, has approximately \$62,000 in student loan debt, including the Parent PLUS Loans his mother took on as well. He puts about one-quarter, or \$600, of what he earns every month, towards his student loan payments and has not been able to put anything towards savings. “With my current job, and my current income, I can’t do much more than what I’m currently doing to pay it off,” Toppin said.

Toppin, who feels he does not keep a lavish lifestyle outside of groceries or the holiday trip home to see family, found the lack of savings particularly frustrating. If he could save, he’d want to work towards a mortgage for home ownership; his grandparents owned property, but neither

of parents ever had. He's looking into certifications to apply for different, better-paying positions within his company or he's planning to start his own business.

"I want to make a huge jump in my career," he said. In the meantime, his mother sends him articles about student loans and about businesses that offer student loan forgiveness incentives, so he hopes to get a job in those companies, so that the money goes straight from the employer to the providers.

### The private letter ruling

Until companies are incentivized to offer the student loan debt repayment, however, they're not likely to become widely adopted in companies. That tax advantage came for one company in late August 2018, when the Internal Revenue Service awarded a private letter ruling to Abbott Laboratories, an Illinois-based health care company, that allowed the employer to make a tax-free contribution to an employee's retirement plan when the employee pays down student loan debt. When an employee contributes 2 percent of his paycheck to student loans, Abbott would contribute 5 percent to his or her 401(k), — the same contribution to employees who contribute 2 percent to their 401(k)s.

It was an unprecedented motion, but as a private letter ruling, it only applied to Abbott, making it meaningful to the one company. "It's a billion dollar organization. And a lot of companies won't spend that type of money on this stuff," Pottichen said. Nevertheless, it excited advocates of large employers and human resources professionals, who hoped the ruling would set the precedent for broader reform in the nation.

"The recently issued private letter ruling is a significant step in right direction, but ERIC believes that more employers would be encouraged to implement retirement savings programs to assist individuals who are repaying student loans, similar to the one described in the private letter ruling if the IRS would issue a revenue ruling or other guidance of general applicability on this issue," Will Hansen, senior vice president of retirement and compensation policy at ERIC, said in a letter last Aug. 29 commending the IRS for the motion. ERIC lobbies for large employers on health, retirement and compensation public policies.

### Drawbacks of the benefit

The ruling solved several problems in a student loan repayment benefit plan for Abbott Laboratories and its employees. For employees, it helped people save for retirement when student loan payments would have held them back. For Abbott, it made the plan tax advantaged for both the company and the individual. Second, it helped solve a budget problem, because most companies already have a budget allocated for 401(k)s. Third, it helped maximize the number of people who can get the company 401(k) contribution, which some companies see as a drawback of the student loan repayment benefit.

"It helps a very specific person," said Mark Kantrowitz, college savings expert and publisher of Savingforcollege.com. That's one reason why CLS Partners' Pottichen said that a student loan repayment plan is not helpful for some of his clients, who might have large swaths of employee

populations not at all saddled with student loan debt. “They’re not sure what the ROI is,” said Pottichen. “They’d much rather spend that money on a program that is more broad based and take benefits from it.”

Perhaps that is why many of the early adopters of the student loan repayment benefit are large companies, of more than 10,000 employees, where the cost is a drop in the bucket for spending, according to Pottichen. Employers that are offering student loan repayment as a benefit include Aetna, Penguin Random House, Fidelity Investments, Natixis, Staples, Chegg and Estee Lauder.

### Proponents of financial wellness: Emerging tech companies

Today, California-based Tuition.io boasts more than 200 clients, or employers, including varied and recognizable names like Staples or Hulu. Moreover, it has raised about \$15.2 million total in venture capital funding from 12 investors, approximately \$7 million of which was raised just in September 2017. “We are the absolute leader in Fortune 500 companies who have adopted student loan repayment at this point,” said Tuition.io CEO Thompson.

Since then, the company has been using the money to hire new engineers, expand the sales team and release new products, including a platform that is focused on the healthcare sector, where Thompson said the student loan debt problem is particularly acute. Mostly, Thompson has been investing in the company’s software. “Most large employers want a very unique plan design for student loan repayment assistance,” Thompson said. “They’re interested in what they’re doing that’s specific to them and their workforce, and to do that, you have to invest into the platform.”

While Thompson refused to share revenue numbers, he said that Tuition.io is not yet profitable, though he forecasts the company will be cash flow positive no later than early 2020.

Others are also moving into the space. Fidelity and PricewaterhouseCoopers both launched their own student loan repayment programs in 2016. Similar companies to Tuition.io have also cropped up, whether they’re Boston-based company Gradifi, which was founded in 2014, or Austin-based startup Vault (which was founded in 2013 and, until it rebranded just a half-year ago, called Student Loan Genius). “The market is going to be very hot for this service,” Thompson said.

Gradifi, a Boston-based tech startup founded in 2014, appointed David Chang in November 2018 to take the reins as chief executive officer, following founder and former CEO Timothy A. DeMello. Chang, who became Harvard’s entrepreneur in residence in 2015, said he saw how much student debt was impacting students who were working towards their dreams.

“When I came across Gradifi, it was one of the few opportunities that I saw that had a mission that was tackling a big market problem and was a space that I was close to,” Chang said.

The company now works with more than 500 employers of various sizes, which Chang said is double the number from one year ago, and counts companies like PricewaterhouseCoopers among its partners. When it started in 2014, the company’s original revenue model centered around helping employees pay down student loan debt. In the past 12 months, however, the

company has expanded to include student loan refinancing and college savings solutions to employees as well, which is part of a larger trend towards financial wellness in employee benefits.

### A recruiting incentive

In Boston, Massachusetts, which is disproportionately saturated with higher education institutions and boasts a low unemployment economy, the benefit is a differentiator and a competitive advantage for employers who want to recruit and retain talent. Massachusetts ranks sixth with the heaviest student loan debt, with an average of \$31,563 in student debt, according to a 2016 report from the Institute for College Access and Success. Boston is the location of 29 colleges and universities.

Meanwhile, according to the Bureau of Labor Statistics, Boston has an unemployment rate of 2.4 percent, as of November 2018. For comparison, that's an entire percentage point lower than the Massachusetts unemployment rate for November, which came in at 3.4 percent, and the national unemployment rate, which came in at 3.7 percent.

That's why there's interest in the state on how employers can help students repay their loans, according to Kristen Grasio, who is the director for policy for the Greater Boston Chamber of Commerce and oversees the Student Debt Working Group, an initiative the Chamber launched with Attorney General Maura Healey to problem solve the student debt crisis in their state. The group drew representatives from banks, universities and state offices, like Citizens Bank, Fidelity and Harvard University.

"In Greater Boston, we consider talent in the workforce one of our biggest competitive advantages in attracting businesses to the region," said Katie Hauser, vice president of marketing and communications at the Greater Boston Chamber of Commerce. "If you look at any of the businesses that relocate here, the primary reason is access to talent, and that's access to students in the region."

Thus, the Chamber pledged to advocate for federal and state legislation that will incentivize employers to provide tax free student loan assistance to employees, in addition to focusing on financial education, college affordability, degree completion and bankruptcy relief. Moreover, it recommended that groups that administer student loan repayment programs also focus on building out their financial wellness packages.

### What companies are starting to offer the benefit?

"The benefit plan gives me a lot of peace of mind," Maura McLaughlin, a communications manager at National Grid, said in an email. National Grid, a multinational electricity and gas utility company, launched its student loan repayment program with Tuition.io just last April and McLaughlin enrolled six months ago.

The company offers \$50 per month for the first year to employees, which increases by \$25 in subsequent years. “The feedback has been overwhelmingly positive,” said Keith Hutchison, senior vice president of human resources and chief diversity officer of National Grid.

National Grid, which operates out of three geographical jurisdictions — New York, Rhode Island and Massachusetts — has approximately 5,000 millennials in its U.S. workforce and it is working to attract quality talent into its electric business, as well as its back office support, like customer service, information technology, finance, communications and human resources. By October 2018, the company had just over 1,000 of its employees sign up for the program. “If we are in a competition for talent, because we have to be, this benefit was one we decided was too important to not do it,” Hutchison said.

It’s also an increasing trend towards financial wellness in employee benefits. At Carhartt, benefits manager Danyetta Gray noted that physical wellness was the focus when she started in 2010, but she has recently been approached more on benefits that prioritize budgeting and reducing debt and financial counseling programs. Gray said that she sees more employers incentivizing engaging on financial wellness for their employees in the future. In fact, the Society for Human Resource Management's 2017 Employee Benefits survey found that 49 percent of employers in 2017 offered some financial wellness tool, as opposed to 36 percent of employers in 2016.

“We recognize that financial stress plays a part in everybody’s lives, it’s not something that we can sweep under a rug when people are stressed out. They’re not at their best. We want as an organization to do our best to see if we can alleviate some of that, so our folks can be their best and feel their best whether that’s here or outside of work,” Gray said. Carhartt also offers tuition reimbursement benefits.

At Carhartt, which also started offering the benefit to its employees through Tuition.io in April 2018, had more than 1,000 employees of 2,000 eligible employees participating in student debt by the end of 2018. Carhartt has 5400 employees worldwide, and of that 5400, it has just over 2500 US employees. The benefit has a maximum lifetime of \$6,000, distributed in installments of \$50 for the first year and increasing by \$25 in the second year.

“I think a lot of people who are potentially looking to join the Carhartt, are pleasantly surprised that we offer this benefit,” said Danyetta Gray, benefits manager at Carhartt. “I think we’re ahead of the game in offering benefits like this one.”

“Companies who want to attract and retain really talented employees, there’s only so many ways to do it, you can only pay an individual so much money, but if you can pay them in other perks, like tuition reimbursement or student loan reimbursement, then I think you can pay someone a way lower salary and be much more attractive in these perks,” said Brock T. Jolly, managing partner at the College Funding Coach.

[What needs to happen?](#)



Whether a student loan repayment benefit takes off may depend foremost on two bills: the Employer Participation in Student Loan Assistance Act, or House Resolution 795, and the Employer Participation in Repayment Act of 2017, or Senate Bill 796, and how they will fare in 2019. HR 795, which was introduced in the House in February 2017, extends the tax exclusion for employer-provided educational assistance “to include payments of educational loans by an employer to an employee or lender.”

Similarly, the Senate bill, introduced in March 2017, extends the tax exclusion for employer-provided educational assistance to include an employer’s payments to an employee or lender for the principal or interest on any qualified education loan incurred by an employee. That might ultimately need to happen to make an employer student loan repayment program tax-free. “That takes an existing legislation and just makes a slight tweak to make it cover the cost of taking class or covering a student loan,” said college savings expert Kantrowitz. “That might be an elegant way to do this.”

“If congress passes legislation to exclude employer paid student loan repayment assistance from employee income, then many more employers are going to add this as an employee benefit,” Kantrowitz continued.

### Every bit helps

For the employees who have signed up, the benefit is a sign that their company cares about the impact of student loan debt, which they consider a fact of life for their career aspirations. Even if student debt hasn’t hindered their life, it has limited their capacity to achieve future financial goals. Once National Grid employee McLaughlin is done paying off her student loans, she said she is planning on using the extra money for other purchases, like a home or for travel.

For Kasee Kinzler, a senior associate at Andersen Tax in San Francisco, California, student loans helped her pursue the career she always wanted as an attorney, so she considers her student debt a necessary evil. The 29-year-old graduated in 2015 from the Golden Gate University School of Law with approximately \$150,000 in debt. “With that said, I also won’t be able to buy a house or do certain things I wanted to do earlier because I’m worried about my monthly obligation to paying my debt down,” Kinzler said.

Nevertheless, Kinzler, who puts \$700 per month towards her student loans with Andersen Tax paying \$100, has peace of mind about her payment system. She signed up a month after the benefit, which is administered through Gradifi, was announced in October 2017.

“I think every little bit helps,” Kinzler said.