



Student Loan Debt Programs



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State of Student Loan Debt

Topics of Discussion

State of the Union of Student Loan Debt

Retirement Plan Solution & Considerations

Why Offer a Student Loan Benefit

Types of Solutions Available

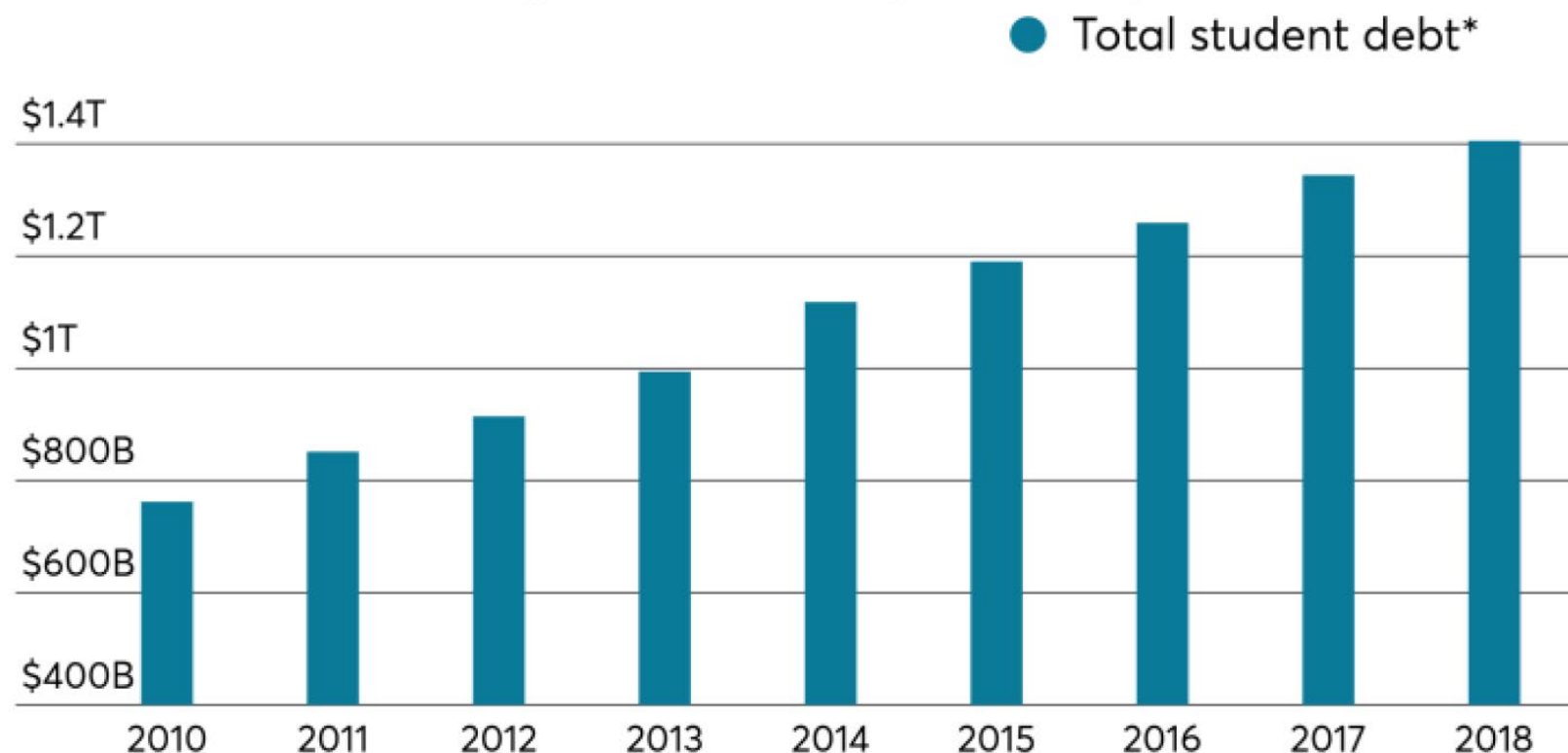
Considerations



State of Student Loan

The price of education

Student debt has climbed nearly 85% in the past eight years, to \$1.4 trillion, as college costs have soared. The federal government holds more than 90% of outstanding loans, according to industry data



Source: Federal Reserve Bank of New York (*June 30 data)

State of the Union of Student Debt

- Class of 2017 Average Student Loan Debt at Graduation: \$28,650
 - Connecticut has highest student loan debt – average \$38,510
 - Utah has lowest student loan debt – average \$18,838
- Direct Loans that are 360+ days delinquent: 101.4B with 5.1 million borrowers
- Direct Loans in Forbearance: \$111.1B with 2.6 million borrowers
- States with the Most Student Loan Debt, Representing more than 20% of all student loan debt (\$340B)
 - California
 - Florida
 - Texas
 - New York

State	Student Loan Balance (\$ billions)	Borrowers (millions)
California	\$111.7	3.4
Texas	\$85.4	2.9
New York	\$73.5	2.2
Florida	\$72.8	2.2
Georgia	\$50.7	1.4
Pennsylvania	\$50.3	1.6
Illinois	\$49.0	1.5
Ohio	\$49.0	1.6
Michigan	\$40.8	1.3
North Carolina	\$36.3	1.1

State of the Union of Student Loan Debt

- As of 2019 more than 42 million student loan borrowers had less than \$100k in debt
- Largest concentration of student loan debt is \$10,000-\$25,000

Student Loan Balance	Number of Borrowers
\$1 - \$5,000	8,547,500
\$5,000 - \$10,000	7,425,400
\$10,000 - \$25,000	12,277,200
\$25,000 - \$50,000	8,609,700
\$50,000 - \$75,000	3,681,000
\$75,000 - \$100,000	1,612,600
\$100,000 - \$150,000	1,347,400
\$150,000 - \$200,000	604,900
\$200,000+	609,800
TOTAL	44,715,500

- Student loan balances by age

Year	Age				
	<30	30-39	40-49	50-59	60+
2013	\$362.0	\$354.1	\$188.1	\$124.9	\$49.8
2014	\$370.5	\$383.1	\$207.6	\$136.5	\$57.7
2015	\$376.4	\$408.4	\$229.6	\$149.7	\$66.7
2016	\$383.2	\$437.4	\$255.6	\$163.2	\$76.3
2017	\$383.8	\$461.0	\$278.9	\$177.2	\$85.4

Student Loan Programs

Alison J. Cohen, Esq., APA, APR



Understanding What a PLR is

- A Private Letter Ruling (PLR) is a written statement issued to the taxpayer by the IRS that interprets and applies tax laws based on the taxpayer's specific set of facts and requested clarification
- A PLR is only good for the taxpayer it is issued to and may not be relied on as precedent by other taxpayers

PLR 201833012

- Abbott Labs received the PLR for its “Freedom 2 Save” program offered to its employees
 - Letter released August 17, 2018
- Press coverage for the program and the PLR was favorable
- Immediate interest from other employers to create similar programs within their 401(k) plans

The Abbott Labs Program

- 401(k) Plan with pre-tax, Roth 401(k), and traditional after-tax option
- Provides for a matching contribution of 5% of compensation provided the employee contributed at least 2% (SUPER generous)
- Matching contribution will continue for everyone just making regular contributions

The Abbott Labs Program (cont.)

- Employee may voluntarily enroll in the student loan benefit program within the plan
- If the student-employee makes student loan repayments (SLR) of at least 2% of compensation, the employer will make a 5% nonelective contribution to the plan on the student's behalf
 - Student must be employed at year end to receive the contribution

The Abbott Labs Program (cont.)

- Student is not required to make SLR on a per payroll basis
- Student can opt-out of the program at any time (but why would they want to?)
- Student can instead make a regular pre-tax contribution and receive the match
 - At year end, match would be eligible for ‘true-up’ if employed at year end
- Vesting still applies to all ER money

How Is This Possible?

- Plan must still pass all nondiscrimination testing required for each money type
 - So, deferrals/Roth 401(k) passes ADP
 - Match and after-tax passes ACP
 - Nonelective contribution passes IRC 401(a)(4)
- The whole thing must also pass coverage and BRF testing

Contingent Benefit Rule

- This was the big catch to making the program work
- Code §401(k)(4)(A) states that an employer may not condition “other benefits” on whether an employee makes, or doesn’t make, pre-tax deferrals
 - Matching contributions are a specific exception
 - So, how does this program meet this rule?

Contingent Benefit Rule (cont.)

- The program meets three requirements:
 - The nonelective contribution isn't contingent on the EE making or not making pre-tax deferrals
 - Because the employee may make pre-tax deferrals, in addition to SLR, the nonelective isn't contingent on the EE making or not making pre-tax deferrals
 - The plan sponsor will not extend any student loans to the employees eligible for the program

Interest By Congress

- Retirement Security and Savings Act of 2019
 - TY Sens. Portman and Cardin
- Retirement Enhancement Savings Act (RESA)
- Setting Every Community Up for Retirement Enhancement Act (SECURE)
- If only Congress could actually do anything...

What This Means For You

- IRS has denied document providers the ability to add language to pre-approved documents currently in for approval
 - Next round of restatements for 401(k) plans starts in 2021 (maybe)
 - Currently in negotiations over language, so SLR programs could be added
 - BUT, IRS said no – waiting for Congress to act

What This Means For You (cont.)

- If you decide to implement a SLR program as part of your 401(k) plan you can either:
 - Apply for your own PLR
 - Take the chance that if audited, the program will still pass muster
 - Wait until Congress take action and passes something

What Some Folks Are Doing

- Mimicking Abbott Labs design option exactly
- Taking the risk, but making the design very conservative
 - SLR Program offered to Non-Highly Compensated Employees only
- Going all in with the idea that either Congress will do something or if the IRS comes knocking, they can talk their way out of it

Questions?



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We are your ^ solution

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WHY OFFER A STUDENT LOAN BENEFIT

Why Do You Offer Benefits in the First Place?

There is an Expectation from Employees

- Must offer certain benefits to be a viable employer

Competition for talent

- Must meet a certain benefit standard to attract and retain employees

Protection

- Health
- Wealth

Workforce Management

What Is Your Differentiator?



Traditional benefits (medical, dental, retirement) are offered by almost everyone

Differences can be made in these areas, but harder and harder to tweak and stand out

ACA narrowed the differences with medical plans



Employers are looking to make themselves stand out



Millennials are different than Gen Xers and Baby Boomers

Less loyal to employers

Strong belief in work-life balance

Believe in traditional benefits, but financial issues are important

What Is Your Differentiator?



Cost of college continues to rise



Women hold nearly two-thirds of all student debt



More jobs are requiring post-graduate degrees



Student loan repayment and tuition reimbursement programs can help you stand out for talent.



Financial wellness programs, especially addressing the stress of managing debt is having excellent results.

Employees are less stressed with programs that offer ways to minimize financial issues

Employees are more productive and miss less work when offered ways to minimize or solve financial issues.



Types of Solutions Available

Student Loan Repayment

Student
loans are a
hindrance
for
employees

66% of employees over 40 have
student loan debt

48% of job seekers would consider
a lower paid job if the company
offered student loan assistance

85% of employees would commit
to five years of service to receive
help with student loan debt

Student Loan Repayment

Student loan programs have challenges

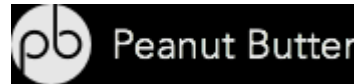
- Only 4% of employers offer student loan program as of 2018
 - Most prevalent in financial services, tech and health care
 - 8% of employers over 40,000 employees
 - Over 29% of employers, regardless of size are considering a student loan benefit
- Fairly new to employee benefits space
- No preferential tax treatment
 - Not deductible to employers
 - Taxable benefit to employees



But
Student
Loan
Programs
also have
great
potential

- Freedom to design
- Stand out
- Create loyal employees
- Attract new workers in key demographic workforce areas:
 - 20-30 and 30-39 age bands where greatest need exists

Student Loan Providers



What a provider can do for you?

- Manage applications
- Verify loans
- Provide payment determination and files
- Counseling
- Consolidation



GRADIFI Refi

Student loan refinancing at competitive rates



STUDENT LOAN PayDown

Direct contributions to your employees' student loans



COLLEGE SaveUp

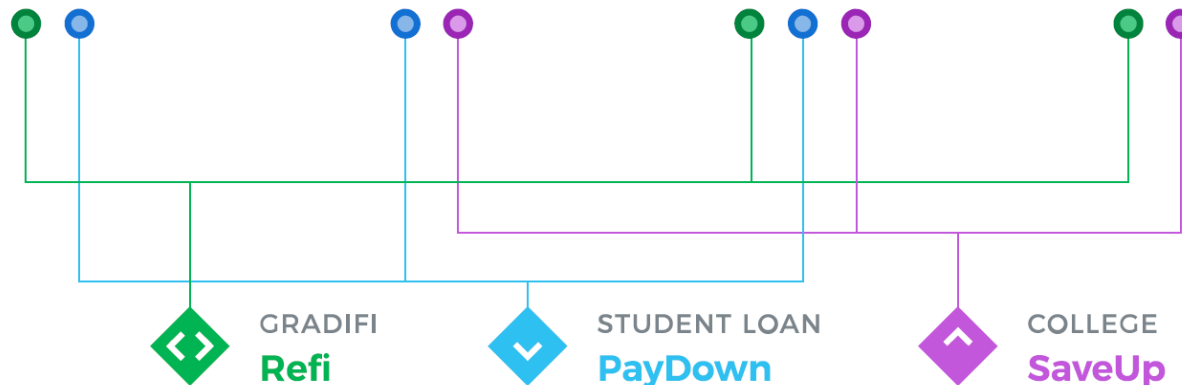
Direct contributions to your employees' 529 plans

Hiring more
recent grads

Employing a more
diverse workforce

Improving your
employer brand

Retaining your
workforce



Gradifi Results

ENGAGE

51.6%

of Gradifi benefit recipients reportedly felt less stress about their student loans because of Gradifi⁶

RETAIN

58.2%

of Gradifi benefit recipients are more likely to stay at their current company because they offer a student loan repayment benefit⁶

RETIRE

71%

of young Americans would put extra money towards retirement if they didn't have to pay student debt⁷

Other Approaches

Variety of Providers offer other student loan programs

- Refinancing
- Consolidation
- Counseling

401k contributions – Employer contributions inside the plan instead of cash reimbursement

For Not-for-Profits - Public Service Loan Forgiveness program may be available (10 years + of service in not for profit and government jobs)

BUT... this program has had very little success with actual approval of applications for forgiveness. Out of 1.4M only 206 applications approved!



Considerations

Questions to ask

- What are your business needs?
- What positions are your hardest to recruit and/or retain?
- What is your budget?
- What criteria do you put on the reimbursement?
 - Minimum employment period
 - Recent loans or any loans
 - Payment frequency



THANK YOU

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