



An Employer's Guide to Student Loan Assistance

MAINE EMPLOYEE BENEFITS COUNCIL | APRIL 2022

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IN THIS PRESENTATION

Today's Speakers

The Challenge & Opportunity

Tax-Incentized Programs Available

Other Forms of Education Assistance

Connect With Us



MEET TODAY'S SPEAKERS

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THE CHALLENGE



\$460

average monthly
student loan
payment

<https://educationdata.org/average-student-loan-payment>

4.5 Million

people in the US
voluntarily resigned in
November 2021

<https://www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/bls-quits-jolts-great-resignation-record-numbers.aspx>

69%

of U.S. employees
say student loan debt
impacts their ability
to save for retirement

<https://www.ebri.org/docs/default-source/rcs/2020-rcs/2020-rcs-summary-report>

80%

of U.S. employees
report that financial
stress affects their job
performance

<https://www.ifebp.org/pdf/financial-education-2016-survey-results.pdf>

THE OPPORTUNITY



86%

of young workers would commit to five years with an employer that helped them pay off student loans

https://file.asa.org/wp-content/uploads/2018/08/14141823/asa_young_worker_and_student_debt_survey_report-1.pdf

\$5,250

of qualifying annual student loan reimbursement to be tax-free to the individual and employer

<https://www.berrydunn.com/news-detail/cares-act-expansion-of-section-127-of-the-irc-tax-savings-for-employers>

78%

reduction in overall employee turnover among employers offering a student loan reimbursement plan

<https://www.fidelityworkplace.com/s/studentdebt>

8%

of US employers offer a student loan reimbursement program

<https://hbr.org/2021/03/companies-can-and-should-help-employees-pay-student-loans>

WHY A STUDENT LOAN REIMBURSEMENT PROGRAM?

TIGHT LABOR MARKET

Companies are struggling to attract and retain employees more now than ever before. The indirect costs from high turnover and unfilled positions can be immense.

DIVERSITY, EQUITY, AND INCLUSION

More and more employees are entering the workforce with larger and larger sums of student loan debt. Women and minorities are disproportionately being affected by the growing student loan debt crisis.

ENHANCED TAX INCENTIVES

In the wake of the COVID-19 pandemic and in the absence of any federally-sponsored student debt reduction, several legislative bills have passed recently that expanded tax incentives available for employers who provide student loan debt reimbursement.

EMPLOYEE WELLBEING & SUCCESS

Employers-of-choice are defining and differentiating themselves by the success of their employees. Improving financial security within your team leads to more fulfilled employees, higher productivity, and a more enriched culture.



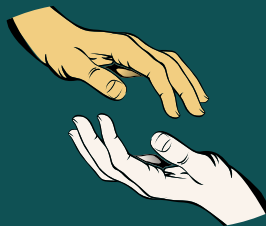
Tax Incentivized Programs



**Section 127 Education
Assistance Plan**



**Education Opportunity Tax Credit
(EOTC) for Maine Employers**



**Public Service Loan Forgiveness
(PSLF) for Non-Profit Employers**

SECTION 127 EDUCATION ASSISTANCE PLAN



What are they and why are they becoming so popular?

A Section 127 Education Assistance Plan is a federal program that allows for up to \$5,250 in tuition reimbursements/repayments made by employers to/on behalf of an individual to be tax-free for both the employer (avoid payroll taxes) and employee (avoid individual income tax).

These plans have become significantly more popular since 2020 as a result of the CARES Act which expanded the definition of “tuition reimbursement” to include student loan repayment. The Consolidated Appropriations Act of 2021 extended this tax benefit through the end of 2025. In addition, there has been a large increase in demand by employees for student loan debt assistance either from the government or from employers.

SECTION 127 EDUCATION ASSISTANCE PLAN

Key Points

- **Must have a written educational assistance plan**
- **Payments are not included in the income of the employee (also not subject to payroll taxes)**
- **The maximum annual exclusion is \$5,250 per employee**
- **Employees may not be offered the choice between educational assistance and comp. (i.e. PTO Conversion)**
- **Provide eligible employees with reasonable notification of the availability and terms of the program.**
- **The student loan being paid must be that of the employee, not of their child or spouse**
- **Payments can be made directly to employees as reimbursement (support for student loan payments should be provided by the employee) or payments can be made directly to the lender**
- **Programs are not subject to ERISA so the employer determines who is eligible based on their own requirements. However, the program CANNOT discriminate in favor of highly compensated employees and those that have greater than 5% ownership can't receive more than 5% of the benefits**

SECTION 127 EDUCATION ASSISTANCE PLAN

Plan Design Considerations



- **Eligibility - Who do you want to provide the benefit to?**
 - Subject to eligibility and coverage discrimination tests
- **Frequency - How often do you want to make payments?**
 - Typically monthly
- **Dollar amount - How much do you want to contribute?**
 - Maximum annual exclusion is \$5,250 or \$437.50/mo.
- **Tenure - How long until employees are eligible for the program?**
 - Can mirror your retirement plan eligibility
- **Lifetime Limit - Do you want to set a lifetime max on how much an employee can receive?**
 - Could be a dollar amount or a time period (not required)
- **Tiered contributions - Do you want to increase your contribution amount based on tenure?**
 - Similar to vesting on a match, incentivize retention

SECTION 127 EDUCATION ASSISTANCE PLAN

Implementation



- 1. Determine who will administer the program**
 - a. Internally
 - b. Bundled with 401(k)/403(b) Recordkeeper (if available)
 - c. Third-party provider
- 2. Develop written education assistance plan**
 - a. Determine plan design and eligibility
- 3. Roll program out to employees**
 - a. Be clear about who qualifies and how to sign-up
- 4. Annual review of program effectiveness and discrimination testing**
 - a. Incorporate into employee handbook and recruiting efforts

Tax Incentivized Programs



**Section 127 Education
Assistance Plan**



**Education Opportunity Tax Credit
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MAINE EDUCATION OPPORTUNITY TAX CREDIT (EOTC)

For Individuals



The credit for educational opportunity provides an income tax credit for Maine resident taxpayers who are qualifying graduates (and employers of qualifying graduates) and who make eligible education loan payments on loans obtained to earn:

- An associate or bachelor's degree from an accredited Maine college or university after 2007 and before 2016; or
- An associate or bachelor's degree from an accredited Maine or non-Maine college or university after 2015; or,
- A graduate degree from an accredited Maine college or university after 2015.

Eligible graduates must live, work, and pay taxes in Maine.

The credit is limited to tax except that for tax years beginning on or after January 1, 2013, the credit allowed to a program participant is refundable if the program participant obtains an associate degree or a bachelor's degree in science, technology, engineering or mathematics (STEM degree). Unused portions of the nonrefundable credit may be carried forward for up to 10 years. Certain limitations apply.

MAINE EDUCATION OPPORTUNITY TAX CREDIT (EOTC)

For Employers



Employers are also allowed to claim the tax credit for student loan payments made on behalf of qualifying employees. Key differences for the employer tax credit are as follows:

- No requirement for employee to have gone to a Maine-based school prior to 2016
- Claimable tax credit is capped by total monthly loan amount owed, not the individual's benchmark rate
- Tax credit is not refundable, regardless of STEM degree or not (excess credit can be carried forward for 10 years)

Individuals and employers can not both claim the same tax credit. However, an individual could claim the credit based on qualifying payments they made up to their benchmark rate and then the employer could claim a credit on qualifying payments made above the individual's benchmark rate up to their total monthly amount owed.

Additionally, certain employees may not be eligible to claim the individual credit themselves because of their graduation date and where their school was located, but they might still qualify for the employer tax credit.

Eligible employees must live, work, and pay taxes in Maine. Payments must be made directly to the loan provider.

<https://www.maine.gov/revenue/taxes/tax-relief-credits-programs/income-tax-credits/educational-opportunity-tax-credit>

MAINE EDUCATION OPPORTUNITY TAX CREDIT (EOTC)

How to claim



Employer must fill out and submit two forms per employee

- [2021 Educational Opportunity Tax Credit Worksheet for Employers of Qualified Employees](#)
- [2021 Educational Opportunity Tax Credit - Employer/Employee Affidavit](#)
 - Only applicable if both employee and employer made qualifying payments

Note: If this is the first year you are claiming this credit, you must include a complete copy of the employee's college transcript, proof of the educational loans that qualify for the credit and proof of the educational loan payments you paid directly to the lender during the tax year. Additionally, Maine Revenue Services may request additional documentation supporting your claim in subsequent tax years.

The sum of the EOTC claimed by you and your employer may not exceed the aggregate eligible education loan payment amount due during the tax year. Payments made by your employer directly to the lender reduce the EOTC the employee may claim. The employee credit is further limited by the benchmark loan payment.

MAINE EDUCATION OPPORTUNITY TAX CREDIT (EOTC)

Differences from Section 127 Education Assistance Program



Section 127 Education Assistance Programs

- Federal program
- Excluded from payroll taxes for employer
- Not taxable as income to employee
- Capped at \$5,250 per employee per year
- Can reimburse employee payments
- Subject to certain discrimination tests
- Requires plan document

Education Opp. Tax Credit (for Employers)

- State program
- Tax credit to the employer
- Taxable as income to employee
- Capped at total student debt owed per year
- Payments must be direct to lenders
- More flexibility on defining eligibility
- Does not require plan document
- ***Exclusive to Maine***

Tax Incentivized Programs



**Section 127 Education
Assistance Plan**



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**Public Service Loan Forgiveness
(PSLF) for Non-Profit Employers**

PUBLIC SERVICE LOAN FORGIVENESS (PSLF)

For Individuals



The PSLF Program forgives the remaining balance on your Federal Direct Loans after you have made 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer.

To qualify for PSLF, you must

- Be employed by a U.S. federal, state, local, or tribal government or not-for-profit organization
- Work full-time for that agency or organization
- Have Direct Loans (or consolidate other federal student loans into a Direct Loan)
- Repay your loans under an income-driven repayment plan
- Make 120 qualifying payments
 - After Oct. 1, 2007
 - Under a qualifying repayment plan
 - For the full amount due as shown on your bill
 - No later than 15 days after your due date
 - While you are employed full-time by a qualifying employer

PUBLIC SERVICE LOAN FORGIVENESS (PSLF)

Temporary Waiver



Important Limited PSLF Waiver Opportunity

- On Oct. 6, 2021, the U.S. Department of Education (ED) announced a temporary period (until Oct. 31, 2022) during which borrowers may receive credit for payments that previously did not qualify for PSLF.

Now, for a limited period of time, borrowers may receive credit for past periods of repayment that would otherwise not qualify for PSLF.

- You may receive credit for past periods of repayment on loans that would otherwise not qualify for PSLF
- If you have FFEL, Perkins, or other federal student loans, you'll need to consolidate your loans into a Direct Consolidation Loan to qualify for PSLF both in general and under the waiver
- Past periods of repayment will now count regardless of whether you made a payment, made that payment on time, for the full amount due, on a qualifying repayment plan.
- Periods of deferment or forbearance, and periods of default, continue to not qualify.

Note: The qualifying employment requirement has not changed.

<https://studentaid.gov/announcements-events/pslf-limited-waiver>

PUBLIC SERVICE LOAN FORGIVENESS (PSLF)

For Employers



Qualifying employers (non-profits) can help employees with the PSLF in two key ways:

1. Education and Administrative Assistance

- a. Confirming you are a qualifying employer
- b. Spreading awareness of the availability of the program to employees
- c. Assisting employees with the paperwork to qualify their payments

2. 403(b) and 457(b) Plans

- a. By providing one or both of these plans, employees are able to materially decrease their adjusted gross income (AGI)
- b. Because of the income-driven repayment requirement, the lower an employee's AGI the lower their monthly payment
- c. With some strategic coordination, an employee can minimize their total student loan payments by maximizing their retirement savings and in turn maximizing the amount of outstanding debt eventually forgiven tax-free under the PSLF

PUBLIC SERVICE LOAN FORGIVENESS (PSLF)

For Employers

Traditional Student Loan Repayment			
Gross Income			\$100,000
Income-Drive Repayment	x	10%	
Annual Student Loan Payments	=		\$10,000

Income-Based Repayment (IBR)	
Monthly Payment (Start)	\$616
Monthly Payment (Max)	\$1,024
Total Paid	\$96,644
Paid Off By	March 2032
PSLF Amount	\$181,659

Student Loan Forgiveness Maximization			
Gross Income			\$100,000
Max 403(b) Contributions	-		\$20,500
Max 457(b) Contributions	-		\$20,500
Max HSA Family Contributions	-		\$7,200
Adjusted Gross Income	=		\$51,800
Income-Drive Repayment	x	10%	
Annual Student Loan Payments	=		\$5,180

Student Loan Forgiveness Maximization (Total Savings after 10 Years)			
Total Student Loan Repayment Savings	=		\$48,200
Total Retirement Savings	=		\$540,413
Total HSA Savings	=		\$94,902
Total Savings	=		\$683,514

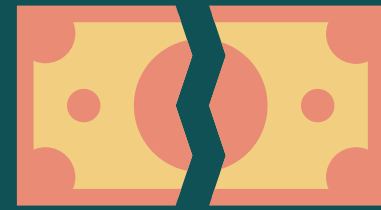
Total retirement and HSA savings assume a fixed annual return of 6% compounded annually.

Source: <https://studentaid.gov/loan-simulator/repayment/results/compare/repayment-plans>
Assumes \$200,000 in student loan debt, married filing jointly with \$100,000 in income.
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Other Types of Education Assistance



Employer-assisted Student Loan
& College Savings



401(k)/Student Loan Match
Employee Choice



Tuition Reimbursement, PTO
Conversion, etc.

OTHER TYPES OF EDUCATION ASSISTANCE

Giving Employers more Flexibility



Employer-assisted Student Loan & College Savings

- Employer makes a regular contribution to employee student loans and/or 529 College Savings Plan
- Amount is at the discretion of the employer and can be uniform or vary across organization
- Student loan payment may be tax-free (if qualifies within Section 127)

401(k)/Student Loan Match Employee Choice

- Employee is allowed to make a choice between retirement plan match and student loan match
- Employer's match follows the current retirement plan and the employee's election
- Employer does NOT need to change their retirement plan
- Allows employer to offer student loan repayment without creating a new budget item

Tuition Reimbursement, PTO Conversion, etc.

- Section 127 Plan specific to tuition reimbursement for employees who wish to further their education
- Allow employees to "cash-out" their PTO only if being used to pay down student loan debt

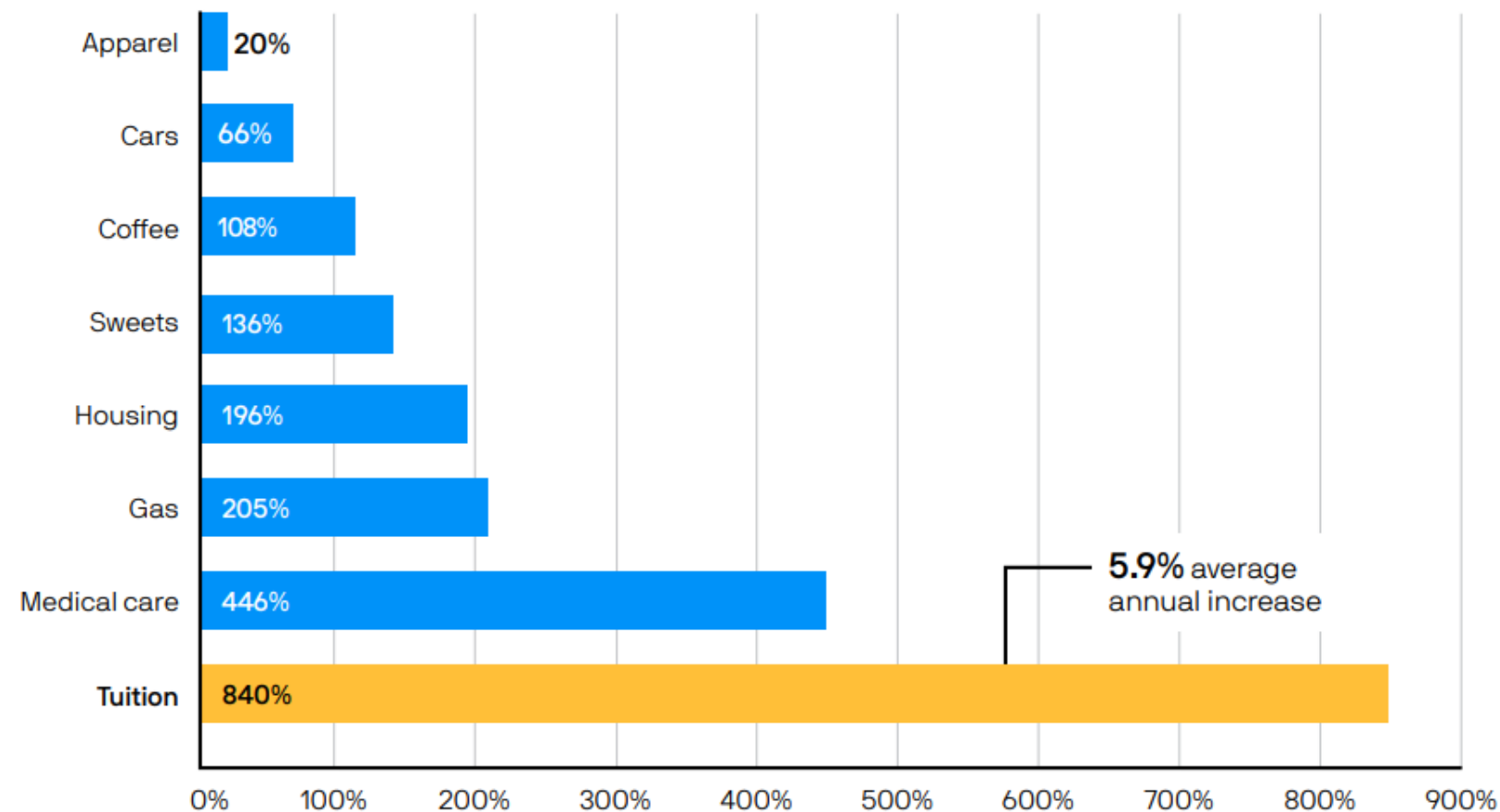
ONE PARTING THOUGHT ON STUDENT LOAN DEBT

It's not going away...

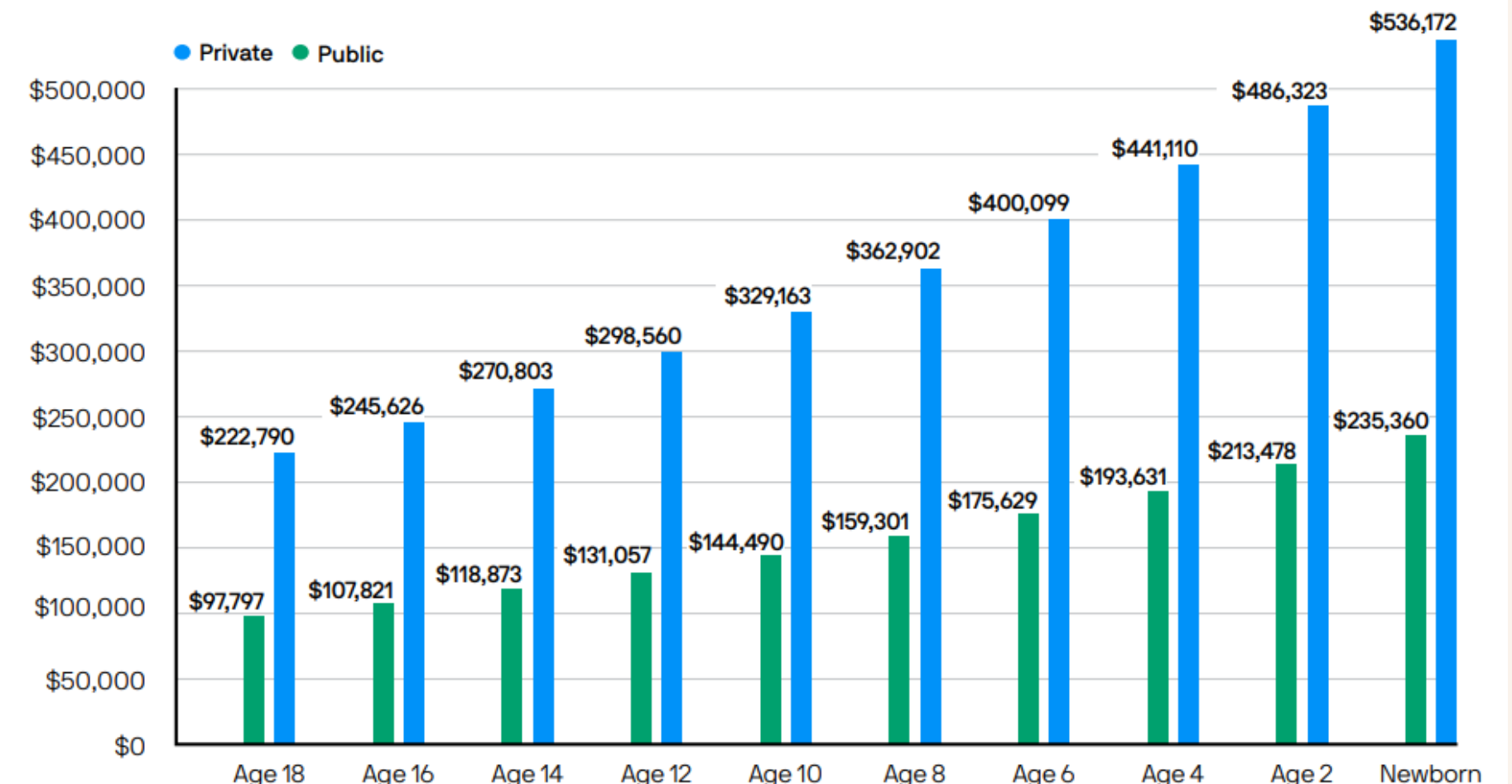
Tuition inflation

College tuition costs have increased more quickly than any other household expense in recent decades.

College tuition vs. other expenses
Cumulative percentage price change since 1983



Projected cost of a four-year college education
based on child's current age¹



Source: BLS, Consumer Price Index, J.P. Morgan Asset Management. Data represent cumulative percentage price change from 12/31/82 to 12/31/21.

THE OPPORTUNITY



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QUESTIONS?



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