Sweetening The 401(K) Benefit For Student Debt

by Steve Brown Topics: human resources, strategic planning

Summary: The amount of student loan debt in the US has tripled over the past 10Ys. We show you how to both help your employees with their debt and attract strong talent.

Using cumulative online surveys of the worst Halloween candy, candystore.com boiled it down to: circus peanuts; candy corn; wax cola bottles; Necco wafers; peanut butter kisses; tootsie rolls; smarties; and licorice. Whether you agree or not, it will be interesting to see how many make the rounds in your neighborhood tonight.

Now that you are thinking of all things sweet, in the world of banking at least, some experts have turned sour on the amount of student loan debt in the US. After all, it has tripled over the past 10Ys and it also impacts many employees (who are still chipping away at their loans).

Recognizing this issue has led some employers to toy with ideas to help both younger and older workers manage this debt. These include signing bonuses, direct payments and even extra compensation based on current debt payments. All of these methods generate taxable income for employees, though, which is not a desirable quality in an employee benefit. Nor are these methods tax-deductible for the employer.

The government seems to have awakened when it comes to this issue, because in August, the IRS approved a tax-deferred way for employers to help workers pay down student debt. Like many other employers, community banks will have this as an option. Extending it to staff may help drive loyalty as you compete in the fierce market for top banking talent.

Abbott Laboratories was actually the company that requested and received the private letter ruling (PLR) from the IRS. PLR 201833012 lets Abbott and other employers run a tax-deferred program to offset student loan costs through its 401(k) offering.

Abbott has a 401(k) plan that lets workers make pre-tax, after-tax, and Roth retirement contributions. Abbott's new approach to help employees pay down student loans lets workers substitute debt repayment for a retirement plan contribution. When workers make student loan payments that equal at least 2% of annual compensation, the company contributes 5% of annual compensation to the worker's 401(k), whether or not the employee contributed to the retirement plan. Usually, the employee needs to make contributions to their retirement plan before the company does.

All the plan qualification rules, including those that govern eligibility, vesting, distributions, contribution limits, and nondiscrimination testing, apply to both the matching contributions and the student loan repayment non-elective contributions.

One point to note - double dipping isn't allowed. Employees can't get both the student-loan repayment plan contribution and the regular matching contribution.

All employees are eligible for the new benefit, as long as they enroll before the end of the calendar year in question. Like other plan contributions, contributions made under the student loan repayment program are tax-deferred for the employee and tax-deductible for the employer.

Plans of all sizes could use this approach as a way to attract and retain talent. So, we bring it up here in case you want to add it to the candy you already hand out to your own team each year in the form of your bag of benefits.

BANK NEWS

Regulatory Review

FDIC Chair McWilliams said her agency will enter the proposed rulemaking stage to give community banks a so called "off ramp" from Basel rules. Expected changes include exempting banks under $10B from Basel capital rules as long as they maintain a leverage ratio above 8% (as determined by regulators). McWilliams also said the FDIC may look at the national rate cap limit on deposit rates that banks can offer if less than well-capitalized to take into account geographic differences and other factors.

More Increases

Fed Vice Chair Clarida gave his first policy speech and in it said more interest rate hikes are likely coming. He indicated the economy is growing stronger and said the structural unemployment rate is lower than expected.

Fintech Lawsuit

The Conference of State Bank Supervisors (CSBS) is again suing the OCC over its "fintech charter". The CSBS lawsuit argues that the matter is now appropriate for court review because the OCC's issuance of the special-purpose charter "is now clearly imminent."

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