

Employers have rapidly adopted student loan repayment programs in recent years. An estimated 4% of employers had a student loan repayment benefit in 2015 and 20% were projected to have one by 2018 (Kilgour, 2017). Offered as an employee benefit, employer loan repayment programs contribute to paying down student loans either by matching the employee's payments or by paying a fixed monthly amount. Research is limited on employee outcomes with employer-sponsored student loan repayment programs because their national expansion is relatively recent. However, these programs are designed to support recruitment and retention of educated workers by reducing the financial burden of employees' educational attainment. This brief explores the potential value of implementing student loan repayment programs to prospective employees and employers depending on the design of the program.

## Potential Benefits

### Enhance recruitment efforts

Generally, employers can use benefits to recruit employees with the characteristics and skills expected to be a good fit (Oyer, 2008). Education assistance programs are potentially attractive benefits to prospective employees interested in continuing their education or younger, highly educated employees with outstanding student loan debt. Graduates with debt tend to choose higher-salary jobs, suggesting that loan repayment programs may support recruitment efforts into lower-salary, public service jobs—particularly jobs in education (Rothstein & Rouse, 2011).

### Retain existing employees

Employer education assistance programs are sometimes contingent on retention, wherein employees become eligible for benefits after a set time period or are required to sign a contract stipulating that the employee will reimburse the firm if they leave before a set date (Flaherty Manchester, 2012). Without a contract, employees may decide to stay with an employer to continue to make use of the financial benefit. Federal agencies have reported improvements to their recruitment and retention efforts with student loan repayment programs (United States Office of Personnel Management, 2018).

### Reduce employees' financial stress

Employer-sponsored student loan repayment programs may increase employee engagement and productivity by relieving the financial stress of regular tuition or student loan payments (Archuleta, Dale, & Spann, 2013; Kim & Garman, 2003). Loan repayment programs have the potential to save the employee thousands of dollars in interest over the life of the loan (Consumer Financial Protection Bureau, 2017).

### Remain competitive in a tight labor market

With the national unemployment rate at or below 4.0%, employers may need to offer increasingly standout benefits to attract and retain talent in addition to higher salaries (US Department of Labor, 2019).

## Potential Costs

### Potential for unintended selection effects during recruitment

Even among students with similar amounts of unmet financial need during their enrollment in postsecondary education, there are differences in who decides to borrow. Understanding who is more likely to borrow and have substantial outstanding student loan debt would help explain the effectiveness of a student loan repayment program as a targeted recruitment tool and help predict any unintended selection effects. A 2008 report published by the Institute for Higher Education Policy found that older, independent students, students from higher-income families, Asian, and Hispanic students were less likely to borrow than their peers. Part-time students at community colleges were also less likely to borrow (Cunningham & Santiago, 2008). Some institutions restrict access to federal education loan programs; the Institute

for College Access and Success reported in 2016 that 9% of community college students nationally were enrolled in schools without access to federal student loans (Cochrane & Szabo-Kubitz, 2016).

### **Unequal distribution of financial benefits may affect employee satisfaction**

If a company invests in student loan repayment, a select group of employees would receive a monetary benefit unavailable to other employees with similar educational attainment. Incoming employees could be eligible for the benefit largely based on their historic borrowing decisions instead of their current productivity or commitment to invest in their skills moving forward (Hirsch, 2018). In addition, student loan repayment programs are often unavailable to borrowers in default who may benefit the most (Consumer Financial Protection Bureau, 2017). These programs also may not benefit borrowers with a high debt-to-income ratio or borrowers eligible to receive loan forgiveness under an income-driven repayment plan (Riskin, 2019).

### **Program may lead to reluctant retention**

If the student loan repayment program requires employees to repay the benefit if they leave before a set date, employees may feel compelled to stay with an employer that is not a good fit for them (Noguchi, 2019).

### **Program administration may be costly or complex**

Borrowers typically have multiple student loans with different benefits, conditions, and repayment terms, and these loans may be serviced by multiple organizations with various repayment policies. This complexity can result in delayed payments or other issues reducing the value of the benefit to both the employer and the employee, and can complicate efforts to efficiently expand the benefit (Consumer Financial Protection Bureau, 2017).

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