life... after DEBT.

Concept Document

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Problem Definition

How can credit unions win the war for talent? It's the question that keeps CEOs and industry groups up at night. To answer it, you need to understand one of the biggest factors driving today's workforce - student loan debt.

Nearly 40% of adults have student loan debt. This affects almost all of their life decisions, including where they work and live, whether they continue their education or start a family, and whether they can plan for retirement.

The average student accumulates over $37,000 in student loan debt and takes roughly 21 years to pay off those loans. Many adults have expressed concern with their level of student loan debt and the impact it has on their lives. In a recent survey, 90% of college graduates said they would be more willing to accept a job offer at a company that offered student loan relief and 94% said they would feel encouraged to stay at their employer longer.

With so many educated professionals looking for some relief, we asked ourselves a bold and deceptively simple question: Can credit unions position themselves as an employer of choice by helping current and potential employees cut their student loan repayment time in half?

Innovative Solution

To answer that question, we created Life After Debt, an employee benefits provider committed to making an unmatched student loan relief package available to all credit union employees. What does that benefit package look like? Life After Debt has a two-pronged approach to slashing student loan debt.

First, credit unions employees could elect to allocate a portion, or all, of their traditional retirement benefits to a 401(k)-like student loan plan. This student loan benefit would be on the same vesting schedule as the traditional retirement package to address concerns with all employees receiving equivalent benefit packages. However, adjustments would be made to the payout structure to ensure employees were not adversely impacted by the tax consequences of a plan that doesn't qualify for tax deferred status.

For example, an employee who would ordinarily receive a 401(k) contribution of 4% of their salary, could instead elect to have that 4% contributed to student loan relief. Once vesting requirements had been met, a portion of the contribution would be made directly to the student loan provider, with the remaining amount paid directly to the employee to cover taxes on the payout. In the example noted earlier, 3% of the contribution would go to the student loan servicer, with the remaining 1% paid out to the employee.

Upon request by the employee, or at the payoff of the student loans, the contributions would be switched to the credit union's retirement benefit. This provides employees the flexibility to plan for both the present and the future, without increasing benefit costs to the credit union.

The second feature of Life After debt is a student loan refinance program that allows employees to refinance their student loans at low or no interest to ensure their payments are going to reduce debt, rather than simply paying accrued interest each month. Under this benefit, employees would refinance their loans and agree to pay market rates, which would be reduced to a no or low-cost threshold for the length of their employment. If the employee left, the rate would adjust back up to market rates.

The combination of Life After Debt's features ensure that the employee's payments have a greater impact in reducing debt and that their employer is also helping them in the present to be able to lead the lives they want.

Survey Results and Testing Decisions

We believed Life After Debt would prove to be desirable and viable from both the employee and credit union perspectives, but surveyed each group to test out our solution.

First, we solicited opinions on the student loan refinance benefit with leaders in the lending and human resources areas of our credit unions. Initial feedback was positive for providing this unique benefit to current and potential employees. However, as discussions progressed a number of considerations made us reevaluate the offering.

Our analysis indicated that employees with average levels of debt and standard repayment terms would save roughly $70 a month in interest through the loan refinance program. Clearly this provides a significant benefit and could reduce loan repayment time by at least 20%, but we also wanted to compare it to other established options. We found that it is not uncommon for employers across industries to offer student loan payment assistance through simple cash payments in that dollar range.

We asked credit union leaders to compare the two ways of providing assistance, and several concerns were noted with the refinance option, including: the large allocation of resources to finance those loans; the potential length of life of those assets on the books; the possibility of having to collect on delinquent loans to current or former employees on something that was intended to be a benefit; and the overall complexity versus simply writing a check.

We followed up the informal feedback sessions with a questionnaire to 16 credit union professionals to better assess their opinion of their benefit. Of the 16, only 9 felt that providing a student loan benefit would significantly help credit unions attract and retain talent. When given the option between providing the student loan refinance option, making cash payments, or providing debt counseling with no financial assistance, only 5 of the 16 respondents preferred the refinance option. Additionally, although the respondents overwhelmingly were not providing any student loan benefit, 50% indicated they'd be willing to offer a benefit of $100 or more, eclipsing the potential benefit of the refinance option. Our research indicated that the refinance option was viable, but not desirable from the credit union perspective.

Next, we set out to test the impact of offering a 401(k)-like product to employees to help pay down student loan debt. In order to make this benefit cost-effective for credit unions, we positioned it as a substitute for retirement contributions with similar vesting requirements, rather than as an expense in addition to those contributions.

We surveyed 85 people with student loan debt to understand whether they would value this option as a substitute to a more traditional benefit plan. Of the 85 respondents, 69% had student loan debt under $50,000 and the other 31% had outstanding loans above that amount. Additionally, 66% of the respondents said they were either somewhat worried or very worried about their student loan debt.

Despite holding significant amounts of student loan debt and two-thirds of the group expressing concern with their debt loads, only 42% said they would elect to receive the student loan debt assistance instead of a traditional 401(k) contribution. These responses were surprising, as they contradict previous surveys indicating that student loan debt is a driving force of life choices for many in today's workforce.

While additional research would need to be conducted to fully align these results, we believe that the responses may indicate acceptance of student loan debt as a lifestyle choice and be viewed as a natural extension of pursuing higher education and certain career paths. Again, the results from this testing indicated that while a 401(k)-like student loan repayment benefit may well be viable, it doesn't appear to be desirable to the workforce as a simple substitute for other benefits. Employers could consider making this an additional benefit, but the costs to do so may well preclude it from being viable at that point, especially for smaller credit unions.

Recommendations and Next Steps

The results of our testing was surprising and made us reevaluate some of our assumptions. As we tried to figure out why Life After Debt wasn't met with more enthusiasm by employers or employees, we identified the steps we'd take to explore this further, given the time and resources.

First, we believe it would be prudent to expand and reissue the survey to a larger group of student loan holders. At 85 respondents, we acknowledge our sample size was fairly small. Additionally, we'd like to better understand why a large number of respondents are forgoing short-term student loan relief in favor of retirement planning, given previous survey data indicating student loan debt is a primary driver of not only stress, but also of nearly all life decisions.

Next, we would conduct research on a question that we believe may address the prior seemingly contradictory results. We'd like to better understand if student loan debt has indeed simply become a social norm, like having a car payment, or a lifestyle choice like mobile plans and revolving credit card debt. If so, student loan debt holders may simply see their debt as a natural and acceptable result of pursuing higher education or a specific career path, not as a problem that needs to be solved. If that's the case, it's possible that a proactive, societally-rooted solution, that changes how we view certain types of debt, may be more impactful.

Life After Debt is structured in a way that minimizes the tax implications for employees. However, we believe legislative changes should be pursued to make it a qualified benefit plan so that it would be more familiar to employers and employees, and therefore would have a higher likelihood of widespread adoption.

Finally, employers are looking to fintech vendors to help address employee student loan debt, but these vendors appear to be more interested in the sale of their products than the livelihood of our employees. We would encourage credit unions as employers to go beyond simple payment assistance, and instead find more meaningful ways to recruit, partner with, develop, and most importantly *retain* talented, well-educated employees.