Educational Assistance for Employees Tax Credit

Executive Summary

Student loan debt has increased substantially over the past several decades. During the past decade, and especially during the last two years, the length of time to fill vacant employment positions has risen substantially. Educational assistance programs that provide tuition and/or student loan repayments are popular with employees and are seen as ways to assist with employee recruitment and retention. The 2020 CARES Act added employee student loan assistance to the list of federally tax-exempt educational assistance programs. Senate Bill 1136 would allow employers to receive tax credits equal to the amount of student loan repayment assistance given to employees, up to $5,250 per employee per year.

Highlights

- In 2019, 56% of employers offered tuition assistance and 8% of employers offered education loan repayment assistance nationwide.
- In a survey of 30,000 student workers, education benefits were reported as the third most desirable voluntary benefit after retirement savings programs and paid time off.
- On average, it cost $4,129 and took 42 days to hire a new employee in 2019.
- The length of time to hire new employees has been rising in the last decade with the most significant increases during the COVID pandemic.
- In Missouri, 833,400 people have student federal loan debt with the average amount being $35,397.

Limitations

- During most of the COVID pandemic, there has been a pause on federal student loan repayments. It is unclear what effect this has had on employee student loan repayment programs.
- There is more data on tuition reimbursement programs than student loan repayment programs. Because of this, it is unclear if student loan repayment programs would have the same positive effects on the recruitment and retention of employees.

Research Background

Employee Educational Assistance

Educational assistance programs are used by employers as employee recruitment and retention tools. In 2019, 56% of employers offered tuition assistance and 8% of employers offered

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education loan repayment assistance according to a report by the Society for Human Resource Management.[1] Educational assistance programs offer clear benefits to employees who can save on education costs. Programs can vary and include different costs such as tuition, school supplies, and student loan assistance. Businesses can also benefit from education assistance programs through increased employee retention and improved recruitment and employee satisfaction. Educational assistance programs are federally tax-deductible up to $5,250. This means that the costs of such programs are not included in taxable income for businesses.

The 2020 Coronavirus Aid Relief and Economic Security (CARES) Act amended federal tax law (26 U.S. Code § 127) to add education loan reimbursements to the list of educational assistance programs that are tax-deductible through 2025. During most of the COVID pandemic, there has been a pause on federal student loan repayments. It is unclear what effect this has had on employee student loan assistance programs. A 2010 study found that the persons that most commonly benefit from educational assistance programs have majors in business (28%), STEM (17%), education (15%), and health (13%).[2]

Employer Benefits of Education Assistance Programs

Education assistance programs tend to be popular with workers. In a survey of 30,000 student workers, education benefits were reported as the third most desirable voluntary benefit after retirement savings programs and paid time off.[3] This is important because the costs of hiring and training new employees can be substantial. In 2019, monthly job turnover across all industries nationwide was 3.2%.[4] This number varies significantly by sector with trade/ transportation/ utilities and leisure/ hospitality having the highest turnover with 5% and 4.4%, respectively. Finance/ insurance and manufacturing, in contrast, had the lowest turnover with 2.2% and 2.1%, respectively. On average, it cost $4,129 and took 42 days to hire a new employee.[5]

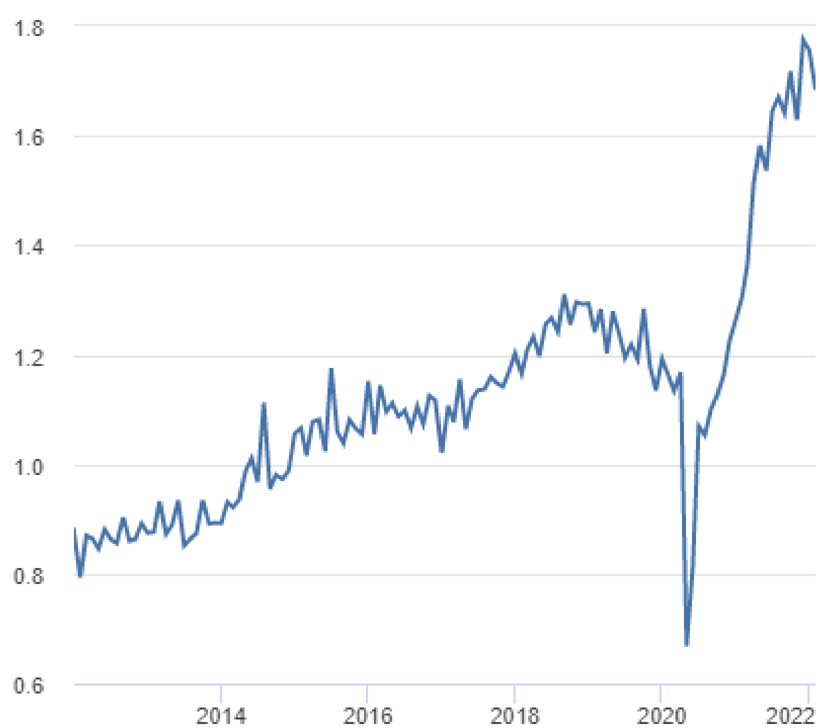

Figure 1. Length of time to fill open job positions over time. The ratio shows the average time it takes to fill an open position over one month. A higher ratio means that it takes longer to hire on average. Source: U.S. Bureau of Labor Statistics.

The length of time to hire new employees has been rising in the last decade with the most significant increases occurring during the COVID pandemic (**Figure 1**). A white paper on Cigna Corporation's tuition reimbursement program in 2014 found that the program had a 129% return on investment due to decreased recruitment costs.[6] There is more data on tuition reimbursement programs than student loan repayment programs so it is unclear if student loan reimbursement programs would have the same effect on improving recruitment and retaining employees.

Student Debt in Missouri

Student loan repayment is one way employers can offer educational assistance to employees. The average student federal loan debt in Missouri is $35,397 and the state's total amount of student federal loan debt at $29.3 billion.[7] Of Missouri residents, 13.5% of the population (833,400 people) have student debt. Nationwide, student debt has increased steadily and substantially over time. Since 1995, national student debt has increased more than sevenfold and has almost doubled in the last ten years.[8] In the fourth quarter of 2021, national student debt totaled $1.75 trillion according to the Federal Reserve Bank of St. Louis (**Figure 2**).[9] There are several reasons for this including that tuition has risen even when adjusted for inflation. According to the College Board, average inflation-adjusted tuition over the last two decades has risen 88% for public four-year institutions and 69% for private four-year institutions.[10] As tuition has increased, the percentage of educational costs covered by aid such as Pell Grants has not kept up.[8]

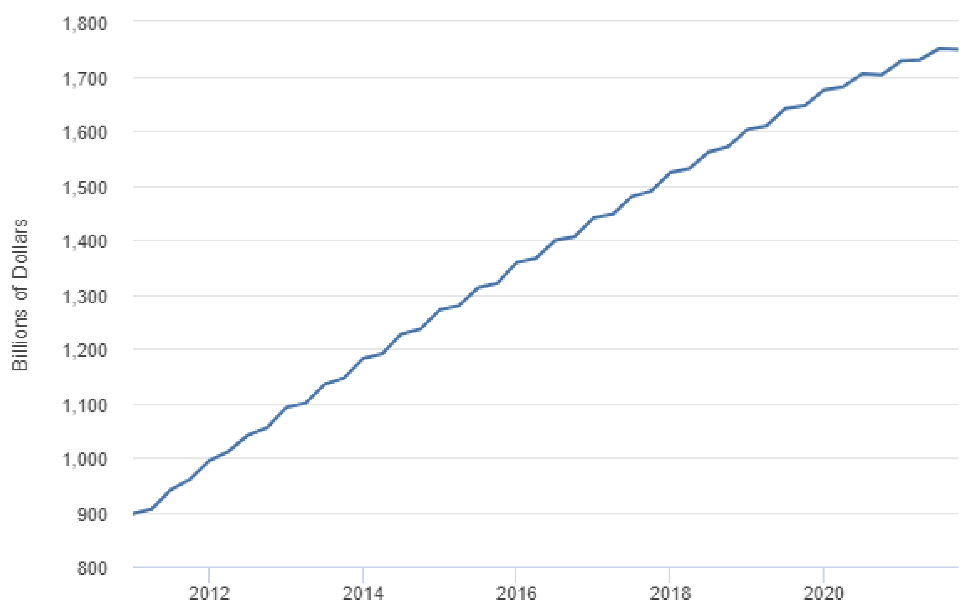

Figure 2. Student Loan Debt Nationwide. Source: Board of Governors of the Federal Reserve System (US).[8]

Related Legislation

Introduced in the 2022 legislative session, [SB 1136](SB 1136) would allow employers who offer education loan assistance to employees to receive a tax credit equal to the amount of assistance. Employees would have to be residents of the state and the tax credit per employee would be up to the federal limit on tax-deductible educational assistance, currently $5,250 per employee per year.

Potential Impact on General Revenue of Proposed Tax Credit

It is difficult to predict what effect the program would have on general revenue. Assuming every Missourian with student debt was able to use the program, the maximum the program could cost per year would be $4.38 billion [the number of people in Missouri with student loans (833,400) X the maximum individual tax credit ($5,250)]. However, there are many variables that make predicting the actual cost of the program very difficult. For example, it is unknown how many businesses will utilize the program. Additionally, the amount of student debt per borrower varies significantly and would likely decrease as employees benefit from the program. Also difficult to predict is how this may impact employee retention. Because of this, it is difficult to quantify the economic effect of increasing highly skilled employee recruitment and retention in Missouri. There is also a possibility of an economic stimulus from decreasing student loan debt subsequently increasing individual spending.

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