The recent passing of the CARES Act recognized that potentially tough times are ahead for student loan borrowers. The Act has offered relief by automatically suspending required minimum loan payments and interest accrual on federal student loans until September 30, 2020.

The CARES Act also provides an income tax exclusion for individuals who get student loan repayment assistance from their employer.

Any payments made to employees’ federal student loans between now and Sept. 30, 2020, will go directly toward their principal balance, maximizing the savings for your employees.

In addition, if the CARES Act section 127 income tax provision is adopted by an employer for their Student Debt repayment benefit, the employer contributions are considered tax free through Jan. 1, 2021, reducing the employees year-end tax bill.
The impact employers can have on employees’ student debt

The examples below illustrate the impact an employer can have on an employee’s student debt if offered during the interest suspension period and beyond. Whether offered in the form of a monthly payment or a lump sum payment during the six-month interest suspension period ending September 30, 2020, the benefit would be the same to the employee, so it’s not too late to make a positive impact. Although the most common offering is a $167 monthly payment for five years, even a one-year program can make a difference – to these employees, every dollar counts. In this hypothetical example, the employee has $40,000 of student debt with a 7% interest rate and a $400 monthly payment.

Employee continues to make $400 monthly payment while interest is suspended

| Lifetime cost savings | $2,700 | Age at payoff | 42.0 |
If an employee makes their $400 monthly payment for six months during the interest accrual suspension period, they will reduce their lifetime costs by $2,700 and pay their debt off 0.6 years earlier.

Employer contributes $167 month for one year + Employee makes $400 monthly payment

| Lifetime cost savings | $7,000 | Age at payoff | 41.2 |
If in addition to their own payment, the employer contributed $167 toward the principal per month for just one year, the employee would reduce their lifetime costs by an additional $4,300 and pay off their debt an additional 0.8 years earlier, saving them a total of 1.4 years in payments.

Employer contributes $167 per month for five years + Employee makes $400 monthly payment

| Lifetime cost savings | $19,800 | Age at payoff | 38.5 |
Alternatively, if in addition to their own payment, the employer contributed $167 towards the principal per month for five years, they would reduce their lifetime costs by an additional $17,100 and pay off their debt an additional 3.5 years earlier, saving them a total of 4.1 years in payments.

Hypothetical example was created for illustrative purposes only.
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