BENEFIT Plan Developments

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Investing In Employees Through Tuition Reimbursement

In a rapidly evolving marketplace, having a workforce with cutting-edge skills gives a business a distinct competitive advantage. But attracting and retaining highly skilled workers, while ensuring that the knowledge of long-serving employees does not become obsolete, can be a struggle, especially for smaller firms. While most larger companies can afford in-house training programs tailored to specific types of employees, smaller businesses with a diverse group of workers typically lack the economies of scale to make sponsoring a targeted learning and career development program feasible.

Employers of all sizes can, however, support workers in furthering their education by instituting a tuition assistance program (TAP). Compared with other benefits programs, TAPs are relatively inexpensive to provide. The IRS allows companies to claim a tax deduction of up to $5,250 per employee, per year, for the reimbursement of educational expenses. Since only a small group of employees tend to apply for tuition reimbursement at any given time, employers can usually offer this benefit at a reasonably low cost.

When designed properly, TAPs can also be a very effective means of retaining valued staff members. According to a study by the International Foundation of Employee Benefit Plans, 88% of employers surveyed believe educational programs are useful in retaining employees.

Because educational assistance programs are generally not subject to extensive regulation, companies have considerable flexibility in tailoring their TAPs to fit their individual business needs. The following are some issues to consider if developing a tuition assistance program:

Who will be eligible to participate? Some employers restrict their TAPs to employees with the company

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for a certain period of time. Others reserve assistance for employees in certain positions, or for full-time staff members. Companies may also have a competitive application process, which allows them to decide whether to subsidize the tuition of employees on a case-by-case basis.

What types of educational programs will be reimbursed? The educational needs of employees vary greatly from company to company. Businesses with a less-educated workforce often support employees in pursuing high school equivalency exams or undergraduate degrees. Firms with highly skilled workers may help pay for post-graduate degrees, but may restrict the types of post-graduate courses they will subsidize to those relevant to business goals. Employers also have the option of financing specialized certification programs for employees who want to learn new skills, or update existing skills, relevant to the work they do. Certification programs usually take less time to complete, and are less expensive, than degree courses.

Will employees be permitted to choose their educational provider? Some companies will reimburse employees for credits earned from any accredited institutions, while others restrict their workers to certain colleges or programs. While distance-learning programs, especially online courses, have been touted as a more convenient alternative to classroom-based programs for adult learners, they may not be the best choice for certain students. Prices for courses and degree programs at different institutions can also vary widely, as can instruction quality. With many options available, a company may want to seek advice from an independent educational consultant, who can help employees select the program that best suits their individual needs, as well as the needs of their employer.

How much money will the employer reimburse? Companies may choose to reimburse tuition costs up to a set dollar limit—often the amount of the allowable tax deduction—or there may be no pre-determined limit on assistance. To ensure students take the investment in their education seriously, firms sometimes commit to subsidizing only a certain percentage of tuition costs, regardless of the tuition amount. While some employers help workers pay for additional expenses, such as textbooks and application fees, others do not. Accounts can help employers clarify the tax and other financial issues surrounding certain types of reimbursement.

In what time frame will tuition be reimbursed to employees? Employers typically opt for one of two reimbursement models: voucher programs and grade-time models. With voucher programs, employers give workers a fixed amount of money, which can be used to pay the bill in advance. Companies using a grade-time model, on the other hand, do not reimburse students until they complete their courses. When considering which model to adopt, take into account whether employees likely to use the TAP can afford to wait for assistance. If the firm does not cover costs upfront, it may want to offer employees guidance on how to obtain financial aid.

Will there be minimum performance standards for reimbursement? Some companies only reimburse students if they achieve certain grades or complete a certain number of credits. To avoid disappointment or confusion, employers should take care to explain these standards to employees before they embark on a course of study.

Will employees be required to stay with the employer for a certain time period after taking advantage of a TAP? One of the biggest concerns employers have about providing tuition assistance is that employees may jump ship after earning a degree or certification. Many employers therefore require students receiving assistance to sign an agreement that they will remain with the company for a certain period of time after completion of the course, or return the tuition paid by the firm. Companies often vary the level of commitment they require from employees based on the amount invested.

Will incentives for participation be offered? While some companies view tuition assistance primarily as an employee fringe benefit, others see an employee who has enhanced his or her skills as an asset to the business. Employers may want to offer workers who meet certain educational objectives cash bonuses, or promotions that take into account the additional skills employees have acquired. Employees who receive recognition for their educational achievements are more likely to remain loyal to their employers.

Will employees participating in educational programs be granted paid or unpaid leave? Policies on the amount of company time employees may take to attend classes or study for exams vary. Some employers allow workers to take some paid time off, while others require employees to complete all coursework on their own time. Many companies find, however, that permitting employees taking classes to telecommute or work flexible hours, at least during exam periods, can reduce stress.

How will the program be administered? If your company is setting up its first educational assistance program, human resources staff members may need some additional training in running TAPs. It is also possible to outsource administration to a firm specializing in supporting these programs. Organizations such as the American Council on Education's Center for Lifelong Learning provide free resources—such as policy templates and sample employee enrollment forms—to companies in the process of developing educational assistance programs. Some educational institutions may also provide businesses with guidance on setting up a TAP.

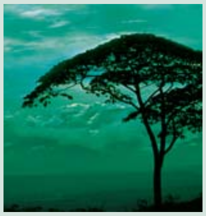
Financial Worries Can Affect Employee Productivity

A significant number of employees are acutely worried about their financial situation, and this money-stress negatively affects their workplace performance, a recent study has suggested. But a report by financial counseling call center Financial Finesse indicates that employees may be getting better at handling their finances.

Thirty million—or one in four—American workers are suffering serious financial distress, and are dissatisfied with their personal financial situations, according to a study by E. Thomas Garman of Virginia Tech University. Nearly 30 other academics and personal finance experts found that depending on their place of employment, 30% to 80% of employees spend time at work worrying about personal finances and dealing with financial issues instead of working.

Many financially distressed workers admitted they take time away from work to talk with co-workers about personal financial problems, to communicate with creditors about past due payments, pay personal bills, balance their checkbooks, or to talk to lenders about debt consolidation. Because of these distractions, the report said, financially troubled workers are often unable to carry out their normal responsibilities, have to cut down on their workload, and are not able to accomplish as much as usual.

Between 40% and 50% of these financially-distressed workers claimed that their health had been negatively affected by their money concerns. Researchers found that people with financial problems faced mental stress that often led to or aggravated depressive or anxiety disorders. In addition, many people in this group said they worried about health care costs and medical bills.



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"It's an ugly situation for employers when more and more of their workers are distressed about their personal finances and running hard just to keep their heads above water financially," said Garman. "These findings should motivate employers to offer employees access to resources, counseling and advice to decrease their stress about money matters and improve their financial lives."

There are, however, indications that financial stress among employees may be waning as the economy improves and workers gain more access to financial advice. Financial Finesse reported that the percentage of calls to its call center regarding debt declined from 42% in 2003 to 39% in 2004. Over the same period, the number of calls from workers seeking guidance on budgeting and saving increased slightly from 16% to 17%, and calls regarding investing rose from 2% to 3%.

Financial Finesse recommended that employers provide basic money management education for their employees, but also offer resources to aid them in long-term financial and retirement planning.

Need For Private Long-Term Care Insurance Growing

Relatively few Americans have private long-term care insurance, but the need for such coverage will become increasingly important as the aging population strains public and family resources, according to a report by Richard W. Johnson and Cori E. Uccello of the Center for Retirement Research at Boston College.

In 2004, Johnson and Uccello noted, the United States spent around $135 billion on nursing home and home-based care for the aged. Medicaid picked up 35% of these long-term care costs, Medicare covered 25%, private health insurance covered 4%, while most of the remainder was paid for out of pocket by care recipients and their families.

Private long-term care insurance, according to the report, currently funds 3% of nursing home costs for elderly people, and 8% of home health costs. A relatively new insurance product that was first sold as nursing home insurance in the 1970s, long-term care insurance now typically covers a wide range of services for the elderly. While the cumulative number of long-term care insurance policies sold has risen from fewer than one million in 1987 to nine million by the end of 2002, these policies still cover only a small share of the population, the report noted.

By 2002 just 18% of the policies ever sold in the United States were employer-provided, the report said, though a program created in 2002 to encourage federal employees and their families to purchase long-term care insurance has boosted the number of employer-sponsored policies sold in recent years.

While warning that "future long-term care costs are likely to place enormous pressures on government and family budgets," Johnson and Uccello observed that the federal government currently offers few incentives for the purchase of private long-term care insurance. However, they added, some state governments are offering generous tax breaks and other incentives to those who buy long-term care coverage, and President George W. Bush has proposed allowing all taxpayers to deduct premium expenses for long-term care plans from their federal taxes. Currently, only taxpayers whose medical expenses exceed 7.5% of their adjusted gross income may claim this federal deduction.

Johnson and Uccello also recommended that the Medicaid safety net, which currently penalizes savings, be altered to encourage Americans to purchase long-term care insurance and save for their future care needs.

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