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ADDRESSING STUDENT LOAN DEBT AS A BARRIER TO VERMONT RESIDENCY

Evaluating Sections of Vermont Senate Bill 331

Presented to the Vermont Senate Committee on Economic Development, Housing and General Affairs

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EXECUTIVE SUMMARY

Vermont currently has an aging population and is experiencing more out-migration than in-migration. The Federal Reserve recently found that the largest barrier for young professionals staying in and moving to rural areas is the burden of student debt. In S. 331, the state legislature proposes new programs to offset the burden of student loan debt in order to both retain Vermonters and attract new workers who are burdened with student loan debt. In designing such programs, legislators may wish to consider the successes and failures of similar programs across the country. This report provides background on the population and economy of Vermont, existing student loan payment assistance programs in Vermont, and national trends in state student loan assistance programs. The report analyzes select components of the current version of the bill—specifically the employer student loan payment program and the expansion of 529 plan uses. It compares the proposed programs to those in Connecticut and Maine to show the differences and similarities that exist among programs in these states. The paper closes with a general summary of findings and presents some policy options for the Vermont State Legislature to consider in its deliberations regarding the future of student loan debt repayment as a barrier to Vermont residency.

1. INTRODUCTION

The Federal Reserve recently found that the largest barrier for young professionals staying in and moving to rural areas is the burden of student debt. As Vermont seeks to fill jobs and encourage young professionals to move to the state, legislators have the opportunity to increase the attractiveness of Vermont by addressing rising student debt, a problem that has doubled since the Great Recession to $1.68 trillion.[1] Many states have implemented programs to help with student loan debt. These states serve as potential laboratories from which Vermont can glean important insight into the strengths and weaknesses of various approaches.

The Vermont Senate Committee on Economic Development, Housing, and General Affairs has introduced an act, Senate Bill 331, aimed at reducing student loan debt for rural Vermont workers. The object of this bill, sponsored by Senator Alison Clarkson and introduced on January 22, 2020, is to recruit and retain workers to rural areas of Vermont by providing relief from student loan debt. It aims to do this using three mechanisms: incentivizing homeownership in Vermont, providing tax benefits for employer payments of student loan debt, and restructuring Section 529 of the Vermont education investment plan to reflect recent federal changes to Section 529 of the U.S. Internal Revenue Code. This paper analyzes select components of the bill to assess the degree to which such proposed changes may be effective in both retaining workers and attracting new workers to Vermont.

2. PURPOSE STATEMENT

With an increasingly aging population, it is important that Vermont maintains a young professional demographic. However, student debt is a significant burden that often prevents the migration of young professionals into the state. Rapidly aging populations and student debt as a deterrent to living in rural areas are growing trends seen in many other states, especially in the New England area. The combination of the two could jeopardize future tax revenue within these states. Other states such as Connecticut and Maine have passed measures to reverse this pattern. Thus, it is important for Vermont to come up with creative solutions that work to both keep young residents in the state and make Vermont more attractive for young professionals from out-of-state. This report will specifically address ways Vermont may be able to attract workers to the state by mitigating their issues of student debt.

Young professionals, particularly those newly graduated with a degree, are an essential part of the Vermont population and represent the future economic prosperity of the state. Significant industries in Vermont are experiencing labor shortages and looking for professionals with specialized knowledge or degrees, such as lawyers and healthcare professionals and providers. By retaining and attracting more young professionals, Vermont will be more economically competitive—able to sustain, and even advance, the economy as older residents retire.

3. BACKGROUND

In this section, we discuss the economic conditions in Vermont, relative to the nation, along with the demographic makeup of Vermont. We further analyze current demographic trends in Vermont along with their possible implications for the economy.

3.1 Rising Student Debt

Since the Great Recession of 2008, total student debt outstanding in the U.S. has doubled, and it continues to rise.[2] As of the first quarter of 2020, the total student loans owned and securitized are $1.68 trillion. The main contributor to this rising debt is the increase in tuition. The average total cost of college tuition and fees in the last 20 years has grown by 154 percent at private universities and 221 percent at public universities.[3] Additionally, Vermont has the second-highest in-state average tuition for four-year public universities at $16,040, closely following New Hampshire ($16,070).[4] On average, one-third of adults under age 30 have an outstanding student loan, with the median amount owed being $17,000.[5] The average student loan owed by college graduates in the United States is $32,731.[6] In Vermont, the amount falls just below that at $30,651.[7] The rise in student debt and the payments required to service it hinder the growth of small businesses, housing markets, and retirement savings.[8]

3.2 Population Trends

The prevailing population trend in Vermont is that the existing population is aging, but there is not a substantial influx of young people migrating to the state to fill out the workforce. There is a marked decrease in population in rural areas as taxpayers, especially those in the lower-income bracket, continue to leave the state.

3.2.1 Statistics and Demographics

According to the most recent census data in Vermont from 2010 and population estimates for 2017, there was a 2,084 person decrease in the population of the state.[9] The out-migration numbers exceed those of people coming into the state. In general, many towns in Vermont have sparse populations, some with fewer than 500 residents.[10] Meanwhile, the largest growing demographic of residents are those between the ages of 60-74. A population pyramid showing the composition of the population identifies the largest estimated group of people to be those aged 49-69. This pattern aligns with the rapidly aging population in the state. Population change between 2000 and 2017 showed areas of Northern Vermont, including Chittenden County and Franklin County, having a population growth upward of 10 percent.

A report produced by the State of Vermont Population Projection Review Committee estimates population projections for 2020 and 2030 by looking at a variety of factors, including migration, mortality, and births. These projections show a decrease in the population of those aged 15-24 and 45-54. Meanwhile the largest demographic increase in population is projected to be those aged 65-79. More conservative projections show that the Vermont population between ages 65-79 could increase from 65,498 to 102,146 in 2020 and 122,846 in 2030.[11] If this 2030 projection proves to be correct, residents ages 65-79 would comprise 19.8 percent of the total projected population.[12]

3.2.2 Taxpayer Changes

Using data from the Internal Revenue Service, the Vermont Legislative Joint Fiscal Office was able to produce research on taxpayer migration flows to and from Vermont. While this data does not reveal the demographics of taxpayers, it provides insight into the destinations of immigrants and emigrants. Their study found that Vermont gains taxpayers primarily from New York, Connecticut, New Jersey, and Massachusetts and loses the most to Florida, Colorado, North Carolina, and California.[13] With that in mind, the increase in taxpayers going to states in the Sun Belt and Florida is not just an issue with which Vermont is contending; rather, it is part of a greater trend among states in Northeast.[14] The study also reveals that the tax burden on residents of Vermont is not the reason for out-migration into neighboring states.

Looking more specifically at the income of taxpayers in Vermont, over a five-year period, there was a decrease of 4,167 taxpayers.[15] The number of lower- and middle-income taxpayers has decreased significantly in the past five years, with 4,099 fewer taxpayers with an income below $100,000.[16] On the other hand, the in-migration of taxpayers consisted mainly of younger and high-income taxpayers.

3.3 Source of Income

As of November 2018, Vermont has a gross state product of $34 billion, with a median household income of $58,562, which is below the national median income.[17] Vermont also had a 2.2 percent unemployment rate, which is below the national average of 3.5 percent.[18] However, according to *Forbes,* Vermont is ranked 47th out of 50 states as "Best States for Business," with the regulatory environment, business cost, and growth perspective negatively impacting the rank.[19] In terms of civilian employment in Vermont, healthcare is the leading industry (15.1 percent) followed by education (13 percent), retail (11.5 percent), manufacturing (10.9 percent), and construction (7.4 percent).[20] These five sectors combined account for 57.9 percent of the total employees in Vermont. In terms of gross domestic product (GDP), finance and real estate account for 20 percent of the total GDP followed by healthcare and education (14 percent), government (14 percent), professional and business services (10 percent), and retail trade (10 percent). The top five industries total 65 percent of the state GDP.[21] It is interesting to note that finance and retail only account for 4.8 percent of the employee population while accounting for 20 percent of the total GDP.

3.4 Existing Debt Forgiveness Programs in Vermont

Vermont already has multiple debt forgiveness programs. This foundation makes it easier for legislators to determine the potential efficacy of new debt-solution programs. Nearly all current programs are targeted toward specific industries.

The most prolific debt-solution organization in Vermont is the University of Vermont Larner College of Medicine Office of Primary Care and Health Education Centers (APEC)

Program. APEC administers a program for physicians, nurse practitioners, and physician assistants (MDs, DOs, APRNs, and PAs); licensed practical nurses (LPNs) and registered nurses (RNs); and dentists.[22] These three programs share some similarities. Each is authorized by the Vermont Department of Health and administered by APEC, which has the authority to carry out the program and grant awards to eligible recipients.[23] General eligibility is similar for each program: Participants must be United States citizens and Vermont residents, and they must work in the field (or one of the fields) designated by the title of the program.[24] Additionally, each program prioritizes "those areas which are underserved with special consideration for Vermont's most rural, underserved and undersupplied areas."[25] Specific eligibility and requirements differ among the programs, however. The MD/DO/APRN/PA program, for instance, designates a minimum award of $10,000 and a maximum award of $20,000, with an additional stipulation that the award amount is less than the outstanding loan balance for the recipient.[26] The federal and state awards under this program must be matched by the employer, practice, or community matching fund.[27] The program for LPNs and RNs maxes out at $6,000 per year, and there is no requirement for matching funds.[28] A recipient may receive the award for up to four years.[29] The dentist program mirrors the MD/DO/APRN/PA program in that it mandates a $10,000 minimum and a $20,000 maximum.[30] Likewise, it requires grant funds to be matched by the employer or community matching funds.[31]

4. EMPLOYER PARTICIPATION IN SENATE BILL 331

Sections 3 through 5 of Vermont Senate Bill 331 propose mechanisms to incentivize employers to assist their employees with student debt. Specifically, this includes a tax credit for employers equal to 25 percent of payments made on each employee's behalf, up to a maximum of $5,000 per employee. The bill also makes this income deductible from Vermont state taxes for the employee up to $5,000 per year, so long as the employee makes less than 150 percent of the average annual state wage.[32]

4.1 National Context

This bill reflects a national trend in state legislatures in its focus on student loans. Nearly 50 percent of all higher education bills enacted in state legislatures in 2019 focused on financial and affordability issues.[33] In 2019, ten bills in state legislatures were introduced that dealt specifically with tax credits or deductions for employer payment of student loans. One of those bills passed, two failed, and seven of those bills were carried over into the 2020 legislative session. Despite the brevity of the 2020 legislative session, already three additional state bills on this issue have been introduced as of May 15, 2020.[34]

Despite the movement on this issue, there are not many existing state programs that leverage tax credits and deductions to incentivize employer payment of student debt. Some policy experts familiar with the issue have suggested that, "one challenge that seemed to hold states back from creating employer-based programs was the tax treatment of the benefit for individuals. In other words, if the benefit was considered taxable income for federal income taxes, there was a reluctance, at least among some legislators."[35] State higher education tax incentives, which mirror those of the federal government, can be broken down into three main categories: 1) saving for future costs, 2) paying current-year tuition and incentives, and 3) repaying student loans. The Pew Charitable Trusts found that between 1990 and 2014, the annual cost of federal higher education tax provisions, i.e., forgone revenue, rose from $3 billion to $34 billion (adjusted for inflation, measured in 2014 dollars).[36] This federal revenue forgone represents the largest annual federal education expenditure. Estimates from the Congressional Research Service show that between 2017 and 2021, 87 percent of the cost of those tax breaks will fall into that second category—paying current-year tuition and incentives.[37] Only 8.5 percent will be spent on tax breaks for student loans—these include 1) the student loan interest deduction (IRC §221) and 2) the exclusion of qualifying cancelled student loans (IRC §108(f)) .[38] At the federal level, employer-provided educational assistance benefits are excluded from employee's gross income (up to $5,250). But the only qualified expenses are tuition, enrollment, and course supplies costs.[39] Thus state incentives for employers to provide current-year tuition abound—37 states as well as the District of Columbia allow employees to exclude employer-provided educational assistance benefits from their state income taxes.[40] But programs that incentivize employers to assist with student loan payments of their employees are not as common.

4.2 Employer Student Loan Tax Incentives

There are two states that currently leverage tax credits and deductions to incentivize employer payment of employees' student loans: Connecticut and Maine. An overview of these programs is presented in the table below.

Table 1. Employer Student Loan Tax Incentives

State	Description
Connecticut	A tax credit program for employers who help pay their employee's student loans. Employees must be residents of Connecticut. The credit is equal to 50 percent of the payments the employer makes on the outstanding principal balance of the employee's education loan up to a maximum of $2,625 per employee per year.[41]

Maine: Opportunity Maine	A tax credit program that reimburses student loan payments for qualified borrowers who live and work in Maine as well as employers who make payments directly to the lender on behalf of their qualified Maine-resident employees.[42]

4.2.1 Maine

Opportunity Maine, a tax credit program that reimburses student loan payments for qualified borrowers who live and work in Maine, was established in 2008. Although it initially targeted graduates of Maine colleges only, in 2016 the program was expanded to include out-of-state graduates moving to Maine.

The credit is available to Maine residents who work and pay taxes in the state and (1) earned a bachelor's or associate's degree after 2007 and before 2016 from a Maine school, (2) earned a bachelor's or associate's degree after 2015 from any accredited school in the United States, or (3) earned a graduate degree from a Maine school after 2015. The credit is equal to payments, up to a benchmark loan payment amount, made by the taxpayer on eligible loans included in the qualified graduate's financial aid package. The monthly benchmark amount ranges from $72 to $377 depending on graduation year and degree earned.[43] The program benefits are more generous for those in STEM fields (science, technology, engineering or math). Residents earning associate's degrees or bachelor's degrees considered to be in STEM fields by Maine Revenue Services receive a refundable tax credit. Residents with bachelor's degrees **not** considered to be in STEM fields or graduate degrees earned at Maine Schools receive tax credits that are not refundable but may offset any individual income taxes owed to the State of Maine with a carry-forward of 10 years.[44]

Employers can claim the opportunity tax credit (non-refundable) when they make student loan payments directly to the lending institution on behalf of their qualifying employees. The employer credit is equal to the amount the employer pays to the lender. The employer credit does not precisely have a cap, but the combined credit for the employer and the employee may not exceed the monthly loan payment amount due multiplied by the number of months eligible loan payments were made. If that combined monthly payment made is more than the required monthly loan payment amount, the employer credit will be prorated based on the ratio of the amount the employer paid to the total amount paid directly to the lender multiplied by the loan payment amount due [(employer payment/total amount paid) x (loan payment amount due)].[45]

In the early years of the program, Opportunity Maine had a lot of difficulty engaging employers and getting them to participate.[46] The Opportunity Maine program is marketed by Live and Work in Maine, a private-sector initiative developed to encourage young graduates to move to the region by promoting career opportunities. According to the initiative, more than 9,000 borrowers received approximately $17 million in tax credits through the Opportunity Maine program in 2018.[47] While Live and Work Maine has helped, the marketing budget for the program from the state is only $20,000 per year.[48] The larger problem facing both employees and employers, however, is the complicated and burdensome application program.[49]

4.2.2 Connecticut

In June of 2019, Connecticut passed Senate Bill 72 into law (Public Act No. 19-86) which goes into effect on January 1, 2022.[50] Unlike Opportunity Maine, which offers credits to both students and employers, this program only targets the employers: the act established a state corporation business and insurance premium tax credit for an employer that makes eligible education loan payments on a qualified employee's behalf. The credit will equal 50 percent of the payments the employer makes on the outstanding principal balance of the education loan of the employee up to a maximum of $2,625 per employee per year. If the company pays both corporation business and insurance premium taxes it may only apply the credit to one of them.[51]

The bill was introduced for the same purpose as Vermont Senate Bill 331—to provide incentives to college graduates to live, work and pay taxes in the state after graduation.[52] Thus eligible employees are those who a) are residents of Connecticut, b) work full time (at least 35 hours per week) at a corporation, insurer, or health care center that is licensed in Connecticut (and subject to the applicable tax), and c) have earned their first bachelor's degree within the last five years.[53] As a cost-containment measure, this five-year out of undergraduate education restriction might be interesting for Vermont to consider if the state is worried about the cost of SB331.

What is notable and novel about the act is that eligible loans are only those that were initially issued by or have been refinanced with the Connecticut Higher Education Supplemental Loan Authority (CHESLA).[54] It is unclear whether this provision was included to benefit the state or for ease of administration. But in speaking with student loan experts in Vermont, this may be one avenue Vermont might want to investigate as it considers the most efficient and effective mechanisms of administering the type of program proposed in VT SB331.[55]

The credit-eligible loan repayments are thus limited in both amount and duration. Attorneys at the Connecticut law firm Shipman & Goodwin LLP anticipate employers, "will offer this benefit as a lump-sum payment to CHESLA when an employee refinances his or her loans through CHESLA and notifies the employer of the refinancing within five years after their graduation year (a new hire "attract" benefit), or otherwise as part of a program that provides for a series of payments to CHESLA contingent on the employee's continued service to the company (a "retain" benefit)."[56] As for the employee, they note, "because payments would be made directly to CHESLA, the employee would generally have current state and federal compensation income in the amount of the employer's payment,"[57] and would thus have to pay income taxes on the benefit.

In contrast, as described earlier, the VT program proposed in SB 331 would exempt such benefits from state income taxes. But presumably the federal income tax liability would remain.

4.3 Other Reimbursement and Tax Credit Programs

Given the difficulty that administering employer-linked programs can present, we also looked at a range of other state programs concerning student loan forgiveness, reimbursement, repayment, and tax credits/deductions. The types of programs can largely be grouped into two major categories: 1) those tied to certain professions and 2) low interest refinancing options through state lending authorities. We will discuss these two groups, along with a third group made up of singular programs unique to different states.

4.3.1 Professional Programs

The first, and the overwhelming majority, of these programs relate to employment in a specific field for a specific amount of time. They most frequently take the form of loan forgiveness and repayment programs for teachers, healthcare professionals, lawyers, farmers, and STEM (Science, Technology, Engineering, and Math) workers and they are often tied to service in areas experiencing a shortage of these professions. The reason these programs represent the bulk of student loan programs is likely due to the federal tax treatment of cancelled, forgiven, or discharged debt. Section 61(a)(12) of the federal Internal Revenue Code (IRC) specifies that gross income includes income from the discharge of indebtedness of $600 or more in any calendar year – referred to as "cancellation of debt income."[58] However, IRC section 108(f)(1), 26 U.S. Code §108, provides that student loan debt discharged "if the individual worked for a certain period of time in certain professions for any of a broad class of employers" is an exception to cancellation of debt income.[59] Thus loan forgiveness programs contingent upon the student working for a specific number of years in certain professions are not taxable, but other programs might be.[60] Additionally, these state programs often line up with federal loan forgiveness programs—specifically the Public Service Loan Forgiveness and Teacher Loan Forgiveness programs.[61] Almost every state has at least one of these programs. Vermont has five: the Vermont Educational Loan Program for Primary Care Practitioners, the Vermont Educational Loan Program for Nurses, the Vermont Education Loan Program for Dentists, and the Vermont Education Loan Repayment for Nurse Educators, and the Vermont Bar Foundation Loan Repayment Assistance.[62]

It is worth considering how the existence of these programs may complicate SB331. That is, how might each program be administered such that Vermont can prevent tax payers from benefitting from the Vermont Educational Loan Program for Primary Care Practitioners, for example, from double-dipping by also receiving the benefits in SB331.

4.3.2 State Student Loan Authorities

There are several states, including Vermont, that have established student loan authorities. These authorities, first and foremost, originate loans. In Vermont, the Vermont Student Assistance Corporation (VSAC) issues these loans, known as Vermont Advantage Loans, to families in which the student is a Vermont resident attending college in or out of state or from another state attending college in Vermont.[63]

These authorities issue tax-exempt revenue bonds, known as Qualified Student Loan Bonds, to finance their operations, and thus require little direct revenue from the state. The Internal Revenue Code rules that allow nonprofit and state-based student loan organizations to use the proceeds of Qualified Student Loan Bonds to fund education loans require that the yield on these education loans be no greater than the yield on the bonds plus two percent; this keeps interest rates low. Because of their tax-exempt status, Qualified Student Loan Bonds, in many cases, allow the nonprofit lenders that use them to offer lower interest rates, lower origination fees, and lower monthly payments than many commercial lenders provide and lower than the Federal Direct Parent PLUS loan program.[64]

Federal student loan interest rates are fixed to a target that adjusts annually based on the yield of the 10-Year Treasury Note. Because student loan interest rates change with economic conditions and policy changes, students borrowing in different years can end up paying significantly different rates. Thus, a student who took out a loan in 2007 would have to repay with a fixed interest rate of 6.8 percent; whereas another who took out a loan in the spring of 2017 would have to repay with 3.76 percent. A robust private refinancing market has developed around these loans, allowing those with high interest rates the opportunity to refinance at a lower rate, but those operations have been accused of "cream skimming"—refinancing loans of those with great credit and high-paying jobs.[65] Guidance provided by the U.S. Treasury on November 13, 2015, clarifying Section 144(b) of the Internal Revenue Code, allowed state student loan programs to use tax-exempt bonds to refinance loans for state residents or for students who attend a school in their state, regardless of the original lender.[66] Thus programs run directly by the state or by non-profits operating as quasi-public state authorities have asserted their place in the market with broader borrower eligibility requirements. We were able to confirm eleven state authorities that offer refinancing programs: Alaska, Connecticut, Indiana, Iowa, Kentucky, Massachusetts, Minnesota, New Jersey, North Dakota, Rhode Island, and South Carolina.

If Vermont were interested in developing a refinancing program through VSAC, this could potentially eliminate some of the complications involved with overseeing employer payments or prove attractive enough an option to eliminate the need for employer involvement altogether. In New England, the Rhode Island authority, RISLA, and the Connecticut authority, CHESLA, are fairly robust operations. The Vermont population is about 56 percent of that of Rhode Island.[67] In fiscal year 2018 VSAC issued $4.5 million in its Vermont Advantage loans.[68] In that same year, however, RISLA provided $56.4 million in loans to students and families.[69] VSAC originated loans were six percent of the amount issued by Rhode Island. That being said, the Vermont operation appears to be proportional to that of Connecticut: the Vermont population size is 17 percent of Connecticut and in 2018 VSAC's issued 20 percent of the amount of loans issued by CHESLA (CHESLA disbursed $22.6 million in undergraduate loans in FY2018).[70] We were not able to find annual disbursement data for the Massachusetts Education Finance Authority (MEFA).

There would obviously be a large start-up cost in developing such a program, both in terms of setting up the financial operation and expanding the number of VSAC administrators. Additionally, if SB331 is intended to attract young, high earners, these people might opt to use the private refinancing market instead where they may be eligible for more favorable rates and shorter payment plans. Refinancing a federal student loan will cause the borrower to forfeit any benefits for which they may be eligible that only federal loans offer. Nonetheless, the feasibility of building a state student loan refinancing option, with state residency as a requirement, through the VSAC might be worth studying. An overview of existing state student loan refinancing programs in New England is provided in the table below.

Table 2. New England State Student Loan Refinancing Programs

State	**Program (Administrator)**	**Description**
Connecticut	CHESLA Refinance Program (*non-profit*)	State residents may refinance state, federal, and private loans so long as they have a strong credit score and a debt-to-income ratio of 43% or lower: • No application, origination or prepayment fees • Fixed interest rates • Refinance between $5,000 and $125,000 worth of loans • Repayment terms of 5, 10 or 15 years • 0.25% rate reduction for enrolling in autopay Out-of-state residents may be eligible if they are refinancing a CHESLA loan.[71]
Massachusetts	MEFA Refi *(non-profit)*	Any U.S. citizen or permanent resident may refinance any federal or private loans so long as they have an established credit history, no history of default on an education loan and no delinquencies on education debt in the past 12 months, and no history of bankruptcy or foreclosure in the past 60 months: • Prequalify without affecting credit • No application, origination or prepayment fees • Fixed and variable interest rates • Minimum refinance amount: $10,000

		• Repayment terms of 7, 10, or 15 years[72]
Rhode Island	RISLA Refinance Loan *(non-profit)*	A resident of any state who passes a credit check and makes at least $40,000 – or co-signs with someone who makes at least $40,000 – may refinance federal and private student loans with RISLA: • Prequalify without affecting your credit • No application, origination or prepayment fees • Parent PLUS loans are also eligible • Fixed interest rates • Refinance between $7,500 and $250,000 worth of loans, depending on the degree earned • Repayment terms of 5, 10 or 15 years • 0.25% rate reduction for enrolling in autopay • Qualify for deferment if you return to school • Apply for up to 12 months of forbearance in cases of unemployment, temporary disability or other hardship • Switch to income-based repayment if you struggle to make payments[73]

4.3.3 Miscellaneous Programs

There are very few student loan aid programs that do not fall into the two previous categories, particularly the first, profession-based forgiveness. However, there are additional unique state programs, some of which the Committee has already heard testimony about. Maryland and New York have programs that assist low-income residents of the state with substantial amounts of debt through, respectively, tax credits and direct payments to lenders: the Student Loan Debt Relief Tax Credit in Maryland and the Get On Your Feet Loan Forgiveness Program in New York. The absence of any employer involvement makes the administration of the programs more straightforward. However, the programs in their current form are targeted at individuals who do not substantially increase the tax base for the state and therefore may not be relevant to the goals of SB331

The Kansas Rural Opportunity Zone Program (ROZ) was created in 2012 to stem a harmful pattern of out-migration in rural Kansas. ROZ is not a blanket state-wide program, but instead provides income tax waivers and student-loan repayment assistance to eligible residents of targeted rural counties. Unfortunately, analysis conducted by the Kansas Department of Commerce in February of 2019 has found that the program did not meet its goal of reducing the loss of rural population—throughout those seven years county-level data shows sustained rural out-migration in 91 percent of ROZ communities. Only two ROZ counties had more than a one percent increase in population through the program. More notably, only a minimal number of counties had participants who indicated the program was their primary factor for relocation. The analysis suggested that a way to improve this may be to meet individual county needs as "one-size-fits-all programs like the current version of ROZ are hampered by blunt statewide restrictions and administrative delays."[74] Given this feedback, Vermont may want to consider the ways in which they can engage local communities in planning for the implementation of SB331 in various counties so that the state does not fall into the same blanket approach.

The Maryland SmartBuy Home Buyer Assistance and Forgiveness Program more closely aligns with the goals stated in Section 1 of SB331: individuals with student debt looking to purchase a home in Maryland can receive up to 15 percent of the home purchase price from the state. Maryland SmartBuy financing provides up to 15 percent of the home purchase price for the borrower to pay off their outstanding student debt with a maximum payoff of $40,000. Between its inception in 2016 and July of 2019 the program has helped home buyers pay off a total of $7 million in student debt—aiding purchase of 216 homes with mortgages totaling more than $47 million.[75]

Lastly, in February of 2019, New Hampshire passed the College Graduate Retention and Incentive Program (GRIP). In this program, participating employers agree to pay recent New Hampshire college graduates a $1,000 incentive at the end of each year of employment for four years and in exchange the employers will be able to link their available positions to a state website. Marketing of these firms and the website to New Hampshire college graduates would be done by the 22 member institutions of the New

Hampshire College and University Council.[76] The program is designed not to cost taxpayers: the bill appropriates $1 for fiscal years 2020 and 2021 to the Department of Business and Economic Affairs (DBEA) which will create a list of eligible employers and an agreement document template to be signed by the employer and graduate.[77] Although extremely cost effective for the state, the lack of funding for the program and lack of tax incentive for participating employers makes the program's prospects for success dubious.

Each of the abovementioned programs, of course, still runs into the same federal income tax issue as SB331. We have included an overview of each program in the table below.

Table 3. Miscellaneous Programs

State	Program	Description
Kansas	Kansas Rural Opportunity Zone Program	Designed to retain college graduates in the state and partners with rural counties that fund loan repayments up to $15,000 ($3,000 per year).[78]
Maryland	Student Loan Debt Relief Tax Credit	Provides a tax credit to certain Maryland residents who incurred at least $20,000 in debt while earning an undergraduate or graduate degree and still have at least $5,000 of outstanding debt. Priority given to borrowers with higher debt- to-income ratios and graduates of Maryland higher public education institutions.[79]
	Maryland SmartBuy Home Buyer Assistance & Forgiveness Program	To qualify for either Maryland SmartBuy program, homebuyers must have an existing student debt with a minimum balance of $1,000. Maryland SmartBuy financing provides up to 15% of the home purchase price for the borrower to pay off their outstanding student debt with a maximum payoff of $40,000.The full student debt must be paid off at the time of the home purchase, and homebuyers must meet all eligibility requirements for the Maryland Mortgage program.[80]
New Hampshire	State College Graduate Retention Incentive Partnership (GRIP)	Provides a financial incentive for recent college graduates to stay in New Hampshire. Creates a voluntary programs: employees would get a minimum of $1,000 a year for

State	Program	Description
		the first four years they stay in the state. The money can either be paid to the graduate or directly to their lender. The amount would be paid by employers, not taxpayers, but participating companies would be able to work with a network of colleges in the state to attract recent grads.[81] The state allocated $1 to the program's administration.[82]
New York	Get On Your Feet Program	Makes full monthly payments for up to two years to certain college graduates with an adjusted gross income of less than $50,000 who are enrolled in a federal income-based repayment program. [83]

4.4 529 Savings Plan and Employer Participation

Previous testimony before the committee suggested that there were seven states—Arkansas, Colorado, Illinois, Nebraska, Nevada, Utah, and Wisconsin—that offer "state income tax incentives…for employers who provide student loan repayment benefits to employees."[84] We were not able to confirm this. Instead, those seven states provide tax incentives for employers to *contribute to 529 college savings accounts*. The details for these programs can be found in Appendix A. These 529 college savings plans, established under Section 529 of the Internal Revenue Code (26 U.S. Code §529) as "qualified tuition programs," are overseen in most states either directly by the Office of the State Treasurer or by a branch of it. In Vermont this plan is known as the Vermont Higher Education Investment Plan (VHEIP) and is administered by VSAC.

The federal Setting Every Community Up for Retirement Enhancement Act (SECURE Act), signed into law on December 20, 2019 as Pub. L. 116-94, expanded the use of 529 college savings plans so that, among other new features, money from the account may be used to pay qualified higher education loans up to $10,000 (over the lifetime of the plan beneficiary).[85] The earnings from the account and the withdrawals from the account when used to pay for qualified education expenses (i.e., tuition, books, room and board) were already exempt from federal taxes – and most state taxes, but now the payment of student loans using earnings from the account will receive that same federal tax exemption.

Although the federal government has permitted earnings from the account to be used for student loans, the question remains whether states will follow the lead of the federal government and adopt the same language. Some states limit the allowable uses of the 529 plans to "qualified higher education expenses," which means that taxpayers who use the money from their 529 account to pay student loans might be hit with state income taxes and penalties.[86] Since the SECURE Act was signed into law, none of the seven states who offer incentives for employers to contribute to 529 plans have enacted legislation expanding the state treatment of the program to include the payment of qualified student loans. One of the states, however, has a bill pending to do just that: Illinois HB4615, introduced in February of 2020 by Rep. Robyn Gabel, would amend the definition of "qualified higher education expense" under Illinois state law to include "any principal or interest on a qualified education loan."[87] That bill has passed through the Higher Education Committee with a recommendation to pass and is now scheduled for a second floor reading and short debate.[88] Additionally, Arkansas, Nevada, Utah, and Wisconsin are four of the 37 states that have adopted a change in federal code in late 2017 when the federal Tax Cuts and Jobs Act allowed taxpayers to use the 529 accounts for K-12 private school tuition.[89] The National Association of State Treasurers and the College Savings Plan Network, the respective leading professional organizations for state treasurers and administrators of state 529 plans (although these are often one and the same), passed a resolution in 2019 calling for the use of 529 accounts to include student loan payments.[90] Thus, some of the states that offer employer 529 contribution incentives may begin to pass laws that allow the funds from 529s to be used for student loan repayment: creating, albeit unintentionally, an employer incentive for student loan repayment benefits.

4.5 Employer-Led Initiatives

The government is not the only actor that has tried to address student loan debt. According to the Society for Human Resource Management's 2019 Employee Benefits survey, about eight percent of companies, including Aetna, Fidelity, PwC, and even Vermont-based SunCommon currently offer Student Loan Repayment Plans as an employment benefit.[91] The benefit is usually administered through third-party vendors, such as the Boston-based Gradifi, which designs student loan repayment programs for companies.[92] The benefit allows employers to make monthly contributions directly to an employee's student loan servicer while employees continue to make regular payments.[93] Despite a growing number of companies interested in offering such a benefit, the overall numbers remain low because the benefit does not receive favorable tax status—the contributions are considered taxable income to the worker and the employer does not receive any tax breaks for its provision.

Other companies have gotten creative with tax-favorable benefits. Studies show that college graduates with student loans only save about half as much as those without loans by the time they are 30.[94] In a 2018 private letter ruling, the Internal Revenue Service (IRS) granted Abbott Laboratories, a national healthcare company, the option to contribute to employee 401(k) plans based on the student loan payments of the employee. If an Abbott employee uses two percent of her salary to pay off student debt, the company will make a five percent pre-tax contribution to her 401(k).[95] Other companies have either launched similar programs or announced plans for following suit. Of course, a private letter ruling is not broadly precedential, but an IRS document posted in 2019 indicates the agency is considering publishing broader guidance for all companies.[96] Companies had been adding these benefits to attract and retain employees amid a tight labor market with a focus on millennial workers.[97] Although companies still must receive a private letter ruling from the IRS before implementing these programs, Vermont may wish to expand 401(k) tax benefits to include companies that contribute to their employees' 401(k) accounts based on employee student loan payments. This sort of benefit would be far easier for the state to administer than that proposed in SB331 and would not suffer from the same federal tax issue that Student Loan Repayment Plans do. Of course, it would not help employees with their student loans directly, rather it would ensure that their ability to build life savings is not harmed by their student debt.

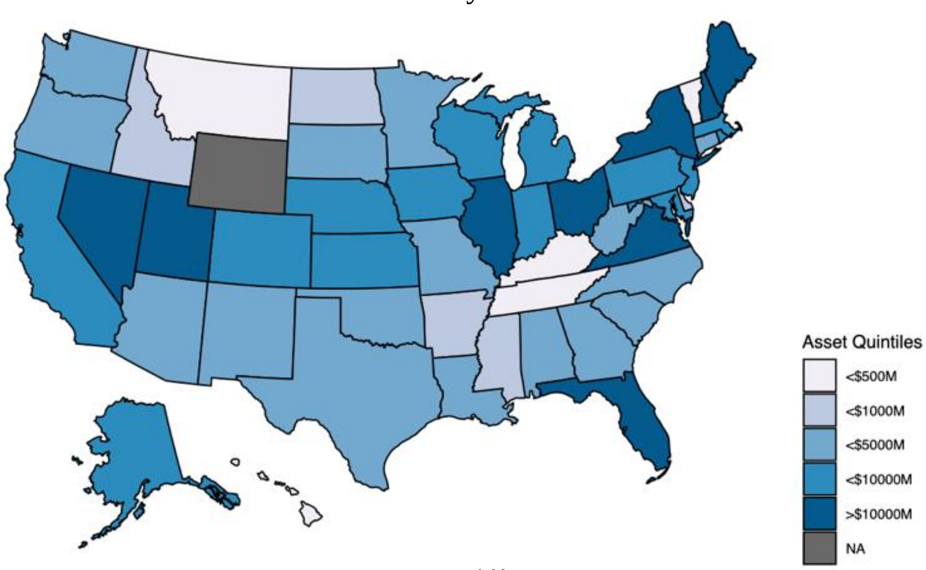
4.6 COVID-19

As we noted earlier, one of the main factors that have been preventing states from passing this legislation is the lack of any comparable credit or deduction on the federal level. But as part of the recent $2 trillion stimulus package, the Coronavirus Aid, Relief, and Economic Security (CARES) ACT, a provision was included that gives a tax break to employers who pay the student loans of their employees as well as to those employees. Included as Section 2206, Employers may now pay up to $5,250 tax-free before January 1, 2021 to employees with student loans.[98] Similar to contributions made under a 401(k) plan, an employer can pay down an employee's loan balance every month, and neither the company nor the employee pays tax on those payments.[99] It is excluded from gross income for both employer and employee.[100] This bill mirrors the bipartisan Employer Participation in Repayment Act, introduced by Senators Mark Warner (D-Va.) and John Thune (R-S.D.) in February, 2019.[101] Although that bill did not make it out of the Committee on Finance during the 2019 legislative session, it attracted considerable press and national support.[102] Critics of the measure say that it is regressive. It is possible SB331 might be subject to the same criticism. Adam Looney at the Brookings Institution estimated, using data from the Federal Reserve Survey of Consumer Finances, that borrowers in the bottom 40 percent of the income distribution (those earning less than about $42,000) get about five percent of the tax benefit, saving about $5.00 per month, while the top 20 percent get about 46 percent of total benefits.[103] But since the stimulus passage, more companies have expressed interest in making the credit a permanent provision.[104] Thus it is probable that we will begin to see more of these programs on the state level.

5. 529 PLANS IN SENATE BILL 331

Section 6 of the Vermont Senate Bill 331 (as of March 13, 2020) proposes to expand the use of Section 529 qualified tuition plans to include registered apprenticeship programs and education loan repayments in order to incentivize migration to Vermont and reduce student debt.[105] As discussed previously in section 4.4 of this report, these tax-advantaged investment plans were established under Section 529 of the U.S. Internal Revenue Code (IRC) in 1996 to help families save for their beneficiary's future higher education expenses. There are two types of 529 plans. The first is a college savings plan in which account earnings are based upon the market performance of the underlying investments, which typically consist of mutual funds. These plans may only be administered by states and the District of Columbia, but can be used at more than 6,000 U.S. colleges and 400 foreign colleges. The second type of plan is a prepaid tuition plan where contributors can opt-in for an advanced payment for tuition at current rates at a specific type of college (public in-state, private, etc.).[106] The 529 plans have special federal and state tax status in that they are not considered taxable gifts to the beneficiary and earnings produced by the plan are not taxable income. Furthermore, withdrawals from 529 accounts are not considered taxable income for the beneficiary when used for qualified education expenses.[107] Finally, some states even offer income tax benefits (tax deductions or credits) for 529 contributions.

Figure 1. Total 529 Plan Assets in 2019
Data show year end levels



As of 2019, there is a combined total of $371 billion in 529 plans nationwide. Most of that money--$346 billion or 93.3 percent—is in that first type of 529 plan, college savings plans. Vermont, however, does not hold very much in total 529 plan assets under management when compared to the rest of the country. In absolute dollar amount, Vermont holds $442 million in 529 assets; whereas the national average for state 529 asset holdings is $6.8 billion. New Hampshire, has $1.9 billion in assets under management.[108] When we examine dollars deposited in 529 plans in per capita terms, Vermont's $708 per capita is several times smaller than the national average of $1,949 per capita and twenty times smaller than the $14,221 dollars per capita in New Hampshire, which ranks the highest in the nation (see Appendix B). Vermont does not offer a prepaid tuition program; in fact, only 16 states offer such plans, which are often restricted to specific colleges with specific residency requirements.[109]

5.1 Registered Apprenticeship Program

As discussed earlier, the passage of the SECURE Act, P.L. 116-94, expanded the allowable uses of Section 529 plans at the federal level to include student loan repayments. It also expanded qualified education expenses to include registered apprenticeship programs.[110] Most states, however, have yet to adopt these changes—if they choose to do so at all—as they pertain to state taxes. Thus when distribution from a 529 account is not used exclusively for the costs of attendance at an approved postsecondary educational institution (which in Vermont does not currently include registered apprenticeship programs), Vermont continues to penalize 10 percent of the distribution from a Vermont Higher Education Investment Plan (VHEIP) account.[111] S.311 Sec. 6. aims to broaden the scope of acceptable usage of the plan by repealing the 10 percent penalty when the higher education investment plan is used on a registered apprenticeship.[112] The Vermont Student Assistance Corporation, along with the Joint Fiscal Office estimates that such statutory changes will not cost more than $100,000 in use of the tax credit.

The Vermont Department of Labor (VDOL) oversees the registered apprenticeship program. Registered apprenticeship is an industry-driven, high-quality career pathway by which employers can develop and prepare their future workforce, and individuals can obtain paid work experience, classroom instruction, and a portable nationally recognized credential.[113] There are nearly 700 active apprentices in Vermont in over 25 occupations. The state has seen a steady increase in total apprentice enrollment, including a 54.5 percent increase in enrollment from 2016 to 2019.

Performance Metric	2016	2017	2018	2019
Total Apprentices Enrolled	1301	1350	1621	2015
Total New Apprentices Enrolled	247	284	405	821
Registered Apprenticeship Certificates Issued	111	290	128	304
Total Active Apprenticeship Sponsors	320	330	354	379
Total Approved Occupational Titles	209	213	215	220
Total Active Occupational Titles	24	34	30	35

Table 4. Vermont Apprenticeship Enrollment[114]

In Vermont, registered apprenticeships involve 2,000 hours of work experience at minimum and a recommended 144 hours of related classroom instruction, with some higher-level occupations requiring as many as 10,000 hours for completion. VDOL has a partnership with Vermont Technical College and Community College of V.T. to advance apprenticeships in Vermont. The colleges work closely with employers in advanced manufacturing, healthcare, and construction, and offer college credits that can give a head start to advance one's career.

To support this program, the state provides approximately $780,000 to the VDOL to administer, oversee, and to promote apprenticeships in Vermont. VDOL has three full-time staff dedicated to administering and overseeing the State Apprenticeship Program. Additionally, Workforce Development Division leadership, administrative staff, performance management staff, Agency of Digital Service, and VDOL business office staff supports the program. VDOL funds the apprenticeship program through federal grants.[115]

5.2 Effectiveness

The question whether changes around 529 plans can successfully increase in-migration of workers from other states is not obvious. Vermont has a low utilization rate of 529 plans, both in absolute and per capita terms. This means that restructuring this plan will have minimal impact on state residents. This low utilization rate could be due to the flexibility of the 529 plan and low performance of its 529 plan compared to its peers. The 529 plan, as defined in the federal tax code, offers a flexible option to invest in any state's 529 plan. Thus, for example, a Vermont resident might invest in a California plan and send their student to college in North Carolina.[116] This allows Vermont consumers to "shop" around, comparing return rates on 529 plans in different states. The Vermont 529 plan has a relatively low-performance rate with 3.03 out of 5.0 ratings on Savingforcollege.com, an independent resource for parents and financial professionals providing them with information and tools to understand the benefits of 529 college savings plans and how to meet the challenge of increasing college costs. Comparatively, New Hampshire has a rating of 4.93 out of 5.0.[117]

Investing in a 529 plan from another state, however, limits a state resident from qualifying for state tax deductions and credits. Thus, the Vermont resident who invests in the California plan will not receive state tax credits for their contributions to the account of their student. Vermont also currently offers the second highest potential tax savings in the nation when its residents contribute to VHEIP accounts. Whereas many states only offer state tax deductions for 529 contributions, Vermont residents can claim a state tax credit of 10% on contributions of up to $2,500 a year ($5,000 for a married couple) to a VHEIP account.[118]

Despite these tax savings, overall utilization of the Vermont 529 plan is low. It is possible that Vermont could improve the performance of the plan and thereby increase in-state participation, but marketing or other factors could also be partly responsible for the low utilization. Without an increase in its 529 participation rate, the proposed changes in the 529 plan may not have a meaningful impact on encouraging state in-migration and reducing student debt.

6. CONCLUSION

Crushing student debt is a significant factor in rural out-migration and acts as a deterrent for rural in-migration. As the population in Vermont is increasingly aging and key sectors face labor shortages, it is of the utmost importance that the state attract and retain young professionals, and student debt is a smart place to start.

States across the country are beginning to consider how they might incentivize employers to assist with the student debt crisis facing residents. Indeed, many of these employers have begun offering benefits even without favorable tax treatment. The solution proposed in sections three through five of S. 331 could prove to be an attractive incentive to employers and young professionals alike. Vermont, however, faces three main barriers in implementing such a program. The first is federal tax treatment. Under the CARES Act, employers may now pay up to $5,250 of an employee's student loans tax-free (i.e. excluded from gross income for both employer and employee) before January 1, 2021. But until such a provision becomes permanent, Vermont employees benefitting from the program outlined in S. 331 will have to pay federal income taxes on their employer's contribution. This federal tax treatment has made many states wary about passing blanket employer incentives for student loan payments, leading to the second barrier: there are only two state programs in the country, Maine and Connecticut, that incentivize employer payment of employee student loans across professions and one of those programs does not take effect until 2022. Lastly, the Committee should consider the substantial complexity of administering the program. In addition to preventing double-dipping into other state student loan programs, administrators would need to figure out how to keep program participants accountable while preventing tax forms and other required materials from being so overburdensome that they repel people from participating. As Maine can attest, this is a difficult balance to strike.

In expanding qualified expenses for Vermont Higher Education Investment Plans to include registered apprenticeships and student loan payments, Vermont is taking an important step toward aligning the Vermont 529 program with the 529 of the Internal Revenue Code as it was amended with the passage of the SECURE Act. While these measures could be effective in allowing more families and individuals to experience the benefits of the tax-advantaged investment plan, this could be even more effective if Vermont were to improve the performance of its 529 plans and potentially engage in more marketing and outreach to attract more participants.

Although there are a number of barriers to implementation, as well as other factors to consider, the selections of S. 331 evaluated in this report represent a significant step in the right direction to attract and retain young rural workers with student loan debt.

APPENDICES

Appendix A: Employer 529 Plan Contribution Incentives for Education Expenses

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As explained in section 4.4, these seven states offer tax incentives to employers who contribute to their employee's (or employee's beneficiary's) 529 college savings account. None of these states have yet to approve the use of funds from 529 college savings accounts for paying student loans. Thus none of the programs below are linked as of yet to student loan payments.

State Employer 529 Plan Contribution Incentives

State	Program Description
Arkansas	State income tax deduction for 529 contributions; maximum $500 deduction per employee per year
Colorado	20% tax credit for 529 plan contributions; maximum $500 credit per employee per year; beginning January 1, 2019
Illinois	25% tax credit for 529 plan contributions; maximum $500 credit per employee per year; unused credits may be carried forward for five years
Nebraska	25% tax credit for 529 plan contributions; maximum $2,000 per year; beginning January 1, 2021. Matching contributions may not be used to pay for K-12 expenses
Nevada	25% tax credit for 529 plan contributions; maximum $500 credit per employee per year
Wisconsin	25% tax credit for 529 plan contributions; maximum $200 credit per employee per year (2018); 25% tax credit on 25% of maximum individual contribution; beginning January 1, 2018
Utah	State income tax deduction for 529 contributions; maximum $2,040 deduction per year (2019)

Source: Chris Hunter, Deputy Executive Director at the National Association of State Treasurers, email with author, May 7, 2020.

Appendix B: 529 Dollar Deposited per Capita

Rank	State	$ in Millions	Population	$ per Capita
1	NH	$ 19,337	1,359,711	$ 14,221
2	AK	$ 9,075	731,545	$ 12,406
3	NV	$ 29,057	3,080,156	$ 9,434
4	VA	$ 78,873	8,535,519	$ 9,241
5	ME	$ 11,113	1,344,212	$ 8,267
6	RI	$ 5,432	1,059,361	$ 5,127
7	UT	$ 15,277	3,205,958	$ 4,765
8	NE	$ 5,657	1,934,408	$ 2,925
9	KS	$ 7,359	2,913,314	$ 2,526
10	MN	$ 1,561	639,632	$ 2,440
11	IA	$ 5,811	3,155,070	$ 1,842
12	NY	$ 34,681	19,453,561	$ 1,783
13	CO	$ 9,305	5,758,736	$ 1,616
14	WV	$ 2,765	1,792,147	$ 1,543
15	MD	$ 7,901	6,045,680	$ 1,307
16	NM	$ 2,473	2,096,829	$ 1,180
17	CT	$ 4,180	3,565,287	$ 1,172
18	SD	$ 1,018	884,659	$ 1,151
19	OH	$ 12,997	11,689,100	$ 1,112
20	IL	$ 13,523	12,671,821	$ 1,067
21	DC	$ 749	705,749	$ 1,061
22	WI	$ 5,802	5,822,434	$ 997
23	MA	$ 6,831	6,892,503	$ 991
24	OR	$ 3,856	4,217,737	$ 914
25	SC	$ 4,263	5,148,714	$ 828
26	MI	$ 8,016	9,986,857	$ 803
27	IN	$ 5,217	6,732,219	$ 775
28	VT	$ 442	623,989	$ 709
29	ND	$ 536	762,062	$ 703
30	DE	$ 684	973,764	$ 703
31	NJ	$ 5,858	8,882,190	$ 660
32	FL	$ 13,734	21,477,737	$ 639
33	MO	$ 3,400	6,137,428	$ 554
34	PA	$ 5,459	12,801,989	$ 426
35	AL	$ 2,026	4,903,185	$ 413
36	AR	$ 980	3,017,804	$ 325
37	GA	$ 3,329	10,617,423	$ 314
38	ID	$ 557	1,787,065	$ 312
39	WA	$ 2,256	7,614,893	$ 296
40	OK	$ 1,170	3,956,971	$ 296
41	NC	$ 2,651	10,488,084	$ 253
42	CA	$ 9,881	39,512,223	$ 250
43	LA	$ 1,026	4,648,794	$ 221
44	AZ	$ 1,531	7,278,717	$ 210
45	MT	$ 215	1,068,778	$ 201
46	MS	$ 573	2,976,149	$ 193
47	TX	$ 2,156	28,995,881	$ 74
48	HI	$ 89	1,415,872	$ 63
49	KY	$ 272	4,467,673	$ 61
50	TN	$ 192	6,829,174	$ 28
51	WY	$ -	578,759	$ -
AVG		**$ 7,277**	**6,338,030**	**$ 1,949**

Source: Board of Governors of the Federal Reserve System; United States Census Bureau

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