

IRS ruling allows 401(k) student loan benefits

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More employers may move to adopt a student debt repayment benefit as part of their 401(k) plan

On August 17, the Internal Revenue Service released a **private letter ruling** that could make it easier for employers to use their 401(k) plans to assist their employees who are repaying student loan debt. Over the last decade student loan debt has nearly tripled in real terms and, today, Americans hold \$1.4 trillion in student debt. Employees are looking for assistance in repaying their student loans, and companies have been searching for ways to tackle the problem.

The recently issued ruling affirmed that, under certain circumstances, an employer can link the amount of its 401(k) matching contributions for an employee to the amount of student loan repayments made by the employee outside of the plan.

Participation is voluntary, but a participating employee is eligible to receive non-elective contributions based on his repayments equivalent to what he would have otherwise received if he had made contributions to the plan. If the employee fails to make full use of the employer match based on student

loan repayments, the excess match would be applied to any contributions made to the plan. The student loan repayment benefit is subject to non-discrimination testing, contribution limits, and other requirements for a qualified plan.

This program should be virtually cost-neutral to the employer in that the employer's contributions are equal to what they would have been if the employee had contributed directly to the plan. At the same time, it should be valuable to those burdened by student debt who appear to not take full advantage of their 401(k) plan. A **recent study** by the Center for Retirement Research at Boston College found that, while student debt does not discourage 401(k) participation, college graduates with student debt accumulate 50 percent less retirement wealth in their 401(k) by age 30 than those without. This new option should increase 401(k) balances for this group.

This is a small positive step towards improving retirement saving. I always worry, however, that – without automatic enrollment – too few employees will take advantage of such an option when offered.