

What Are the Rules for Making 401(k) Plan Matching Contributions on Student Loan Repayments?

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QUESTION: We understand that SECURE 2.0 made changes to how plan sponsors can treat repayment of student loans as elective deferrals for matching purposes under a 401(k) plan. Can you explain these changes and how they can benefit our employees?

ANSWER: Effective for contributions made for plan years beginning after December 31, 2023, employers are permitted to amend their 401(k) plans to make matching contributions with respect to “qualified student loan payments.” (This is among the many retirement plan rule changes made by SECURE 2.0.) A “qualified student loan payment” is broadly defined as an employee’s repayment of a “qualified education loan” incurred by the employee to pay for “qualified higher education expenses.” Generally, this covers loans for tuition, fees, and room and board expenses incurred by students who are enrolled at least half-time in a degree program at an accredited post-secondary institution. The total amount taken into account for an individual’s matching contribution, including both loan repayments and elective deferrals, may not exceed the lesser of (1) the annual deferral limit in effect for the year (e.g., \$23,000 for 2024) or (2) the employee’s compensation.

Employees must certify annually that a school loan repayment has been made. For nondiscrimination testing purposes, participants receiving matching contributions on student loan repayments may be tested separately from the rest of the participant pool. In addition, these matching contributions will be considered safe harbor matching contributions for both regular safe harbor plans and qualified automatic contribution arrangements.

These changes can serve as a valuable employee recruitment or retention tool. Many employees have substantial student loan debt that diminishes their ability to save for retirement and earn employer matching contributions. While student debt is especially common and consequential for younger employees (whose 401(k) contributions have the most long-term impact due to tax-deferred earnings), it can also affect older employees, whose ability to save for retirement may be impeded by debt they incur to enhance their skills, train for a new job, or help their children pay for college.

For more information, see EBIA’s 401(k) Plans manual at Section IX.I (“Student Loan Payment Contributions”) and EBIA’s Fringe Benefits manual at Section X.N.3 (“Using 401(k) Contributions to Reward Student Loan Repayment”).

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