



## How Resuming Student Loan Payments Affects Sponsors



Starting August 29, student loan payments will resume after a 3-year pause. What does this mean for plan sponsors? As employees prepare to deal with the financial burden of student loans again, sponsors have an opportunity to help lessen the load and ensure retirement contributions don't fall to the wayside.

One way employers can do this is by implementing an optional change laid out by the Secure Act 2.0. This provision allows employees to continue receiving retirement

matching benefits from employers while forgoing retirement contributions to focus on repaying student loans. These payments would be treated as retirement contributions, meaning employers would match them based on the plan design features already in place. This provision wouldn't cause any unnecessary extra work for sponsors. Employers can rely on an employee's self-certification to ensure the loan payments are made and can continue matching contributions based on the same vesting schedule. For most student debt holders, this provision could save years of lost retirement savings.

Not only does implementing this program benefit employees' finances, but it can also be cost-effective for employers. First, the contributions made under this provision would have otherwise been made if the employee was still contributing to the 401(k). Therefore, this student loan aid approach is more cost-efficient than most other approaches. If the employer were to add a new student loan benefit program, it would result in additional costs for the employer. For example, student loan repayment dollars given directly to employees are still treated as taxable income, whereas 401(k) contributions are not taxable. Tax advantages like this are generally hard to come by within typical student loan repayment benefits.

Towards the end of August, employees will be scrambling to find ways to balance student loan payments with their current savings contributions. Adopting this benefit would support employee participation in retirement plans despite overwhelming student debt and also serve as a competitive advantage when in recruiting and attaining employees.

Sources:

<https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/irs-allows-401k-match-for-student-loan-payments.aspx>

<https://money.usnews.com/money/retirement/401ks/articles/how-to-get-a-401k-match-for-your-student-loan-payment>

<https://smartasset.com/financial-advisor/the-secure-2-0-act-student-loan-matching>

*This material was created to provide accurate and reliable information on the subjects covered but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation. The "Retirement Times" is published monthly by Retirement Plan Advisory Group's marketing team. This material is intended for informational purposes only and should not be construed as legal advice and is not intended to replace the advice of a qualified attorney, tax adviser, investment professional or insurance agent. (c) 2021. Retirement Plan Advisory Group. Fiduciary Pension Partners is not affiliated with Retirement Plan Advisory Group but subscribes to its annual services offering. Fiduciary Pension Partners is a registered investment adviser with its principal place of business in the State of New Jersey. Registration does not imply a certain level of skill or training.*