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MONEY by Daniel Johnson October 30, 2024

EMPLOYERS ARE LAGGING TO IMPLEMENT IRS' 401(K) STUDENT LOAN MATCHING GUIDELINES

Employers have been reluctant to implement the IRS's guidance because they are concerned about additional complexities.

The IRS issued guidance on how companies can use 401(k) matching to match an employee's contribution to their student loan payments, but some employers have been slow to implement this ruling.

According to Bloomberg Law, employers have been reluctant to implement the IRS' guidance because they are concerned about additional complexities presented by the ruling, even though Fidelity Investments, SoFi Technologies, and Betterment LLC have already offered to create services to provide student loan matching.

What is the main reason employers are hesitant to implement the IRS's guidance on 401(k) matching for student loan payments?

- Lack of interest from employees
- Concerns about additional complexities
- High costs associated with implementation
- Uncertainty about student loan forgiveness

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Employees are also wary about implementing the new IRS guidelines as they watch how the federal government approaches student loan forgiveness.

However, according to the IRS guidelines, employers are permitted to count the repayments as part of the employee's deferred retirement, which allows employees who take part in the 401(k) matching program to save for their eventual retirement while they pay off student loan debt.

“The problem is not the student loans; the problem is the cost of education,” Betsy Mayotte, president and founder of the Institute of Student Loan Affairs, told Bloomberg Law. “We can put as many [bandages] and antibiotics on the student loan issue to make things easier for borrowers, and we should continue to do that, but we are treating the wound and not trying to prevent it from happening in the first place.”

As of Sept. 30, Verizon Communications Inc., Chipotle, and Abbott Laboratories are among the companies that have decided to utilize the 401(k) student loan matching program, but there are concerns.

“This guidance is certainly welcome and helpful, but they (employers) want to make sure there's additional relief available to the extent that there are foot faults; those can be easily corrected,” Gabe Marinaro, a partner at Akerman LLP, told Bloomberg Law.

Barry Salkin, part of Wagner Law Group's counsel, told the outlet that risk-averse employers don't really want to add too many elements to their existing 401(k) plans. "Setting up a plan, things can go wrong," he added, "but I don't classify it as a high-risk proposition like offering cryptocurrency."

As it stands currently, the major roadblocks to the widespread adoption of these plans are data collection and verification issues.

"Actually proving that people are making student loan payments, that they're not falling behind on them or taking options like forbearance and deferment, is something that still needs to be clarified," financial consultant Raya Reaves, the owner of City Girl Savings, told Bloomberg Law.

In part, data collection has become more difficult because of 2020's STOP Act, intended to protect data against scams targeting student loan debtors, according to Jantz Hoffman, the chairman of the Certified Student Loan Board of Standards.

"STOP Act data limitations are creating a situation where it's very difficult for any of these plan administrators to administer a plan that has the matching component to it because the automated way of receiving that data is nonexistent," Hoffman told Bloomberg Law. "They're also not going to want to take on the heavy burden of cost, making their employees enroll in a portal and send payments through that to verify because that's expensive."

Hoffman also said some employers want to make sure they're not favoring a small portion of their workforce.

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