

401(k) Student Loan Match Perk Hindered by Employer Hesitation

By Ben Miller

Deep Dive

- Borrowers and employers still see hurdles to implementation
- Self-certified loan payments present logistical challenges

Companies have been slow to offer an enticing new perk—a 401(k) match for employees' student loan payments—because of compliance and logistical concerns even as the IRS cleared the way for employers to provide the benefit.

While offerings from administrators like Betterment LLC, Fidelity Investments, and SoFi Technologies have already been marketed as services to facilitate matching for student loan payments, plan sponsor uptake appears to be lagging.

Employers are hesitant to roll out this component of their retirement benefits package due to additional complexities posed by the task of proving plan participants have made eligible student loan repayments, given the IRS emphasis on self-certification, according to benefits lawyers. Meanwhile, there's indication from student loan advisors that workers welcome the new option, but are wary of using it given the government's pursuit of potential loan forgiveness.

The IRS interim guidelines permit employers to count student loan repayments as part of a worker's retirement deferrals when calculating match contributions, so that participants can save for retirement while still paying down debt.

Employer contributions must be made at the same rate and under the same vesting schedule as the plan's regular match, the IRS said in the August guidance, which aimed to address a wide array of questions the agency received.

"This guidance is certainly welcome and helpful, but they want to make sure there's additional relief available to the extent that there are foot faults, those can be easily corrected," said Gabe Marinaro, partner at Akerman LLP.

Verizon Communications Inc., Chipotle Mexican Grill Inc., and Abbott Laboratories are among the few companies that have said they are providing a 401(k) student loan match benefit to their employees.

“Employers who are really risk averse don’t want to add elements to the plan,” said Barry Salkin, of counsel at Wagner Law Group. “Setting up a plan, things can go wrong, but I don’t classify it as a high-risk proposition like offering cryptocurrency.”

Proof of Payment

Despite widespread interest from employers in offering student loan match as a perk to attract and retain talent, the possibility of errors in early implementation has been a deterrent for some to put student loan match into action.

“There are borrowers out there who specifically look for employers who offer some kind of student loan repayment benefit and some employees may be willing to take a slightly lower salary if they are choosing between two offers,” said Betsy Mayotte, president and founder of the Institute of Student Loan Advisors.

Loan repayment is also misperceived commonly as a young person’s issue, even though workers with student loan debt range in age and compensation, with half of all student loan borrowers over the age of 30, a quarter over the age of 25, and the fastest growing population of student loan holders above 65, she said.

The IRS guidance explicitly permitting self-certification was intended to provide flexibility, making the process less onerous on employees and plan sponsors alike to ensure that requirement is met, according to Lisa Boehm, partner at Verrill Law.

Employee demand and plan sponsor interest notwithstanding, data collection and verification roadblocks stand in the way of widespread employer adoption of the newly available loan payment match.

“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,” said Raya Reaves, financial consultant and owner of City Girl Savings LLC.

Data Verification Hurdles

The STOP Act passed in 2020, meant to prevent scams by limiting access to certain student debt data, has also removed plan sponsors’ ability to access data from loan servicers. It’s impeded processes that would help employers more efficiently prove that participants have made payments when offering a 401(k) match, financial advisors and benefits attorneys said.

“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,” said Jantz Hoffman, chairman of the Certified Student Loan Board of Standards. “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.”

Despite the uphill battle of implementation, industries like healthcare have shown interest in this type of benefit, according to Reaves, who also hopes that more “radical” employers will take steps to introduce it.

Abbott Laboratories, which has offered its Freedom 2 Save student loan match for 401(k) participants since 2018, utilized a private letter ruling from the IRS to become the first employer to do so, well before the SECURE 2.0 provision took effect in January 2024.

The company, which initially set up its student loan match before the STOP Act was passed in 2020, noted in a “blueprint” document on its program that collecting participants’ loan documentation is time-consuming, so employers should consider their options to use data aggregators or other tools to automate processes.

“Almost no major employer is willing to operate on self-certification,” Hoffman said. “That’s the biggest problem, all of those employers want to ensure that the payments are actually being made, and they want it to be in an automated fashion.”

Supporting All Employees

Questions of fairness have also plagued the early stages of student loan match benefit implementations. Some have expressed concerns that workers may see the employer offering as favoring those employees with educational debt over other types of debtors.

“I think sometimes some employers look at it and say, ‘if we add this provision, it’s only supporting a fraction of our workforce,’ whereas they could say, ‘we’re making this match, if you make a student loan payment or mortgage payment, car payment, this is open to everybody.’” Hoffman said. “So where they’re really concerned is about the appearance of favoring one group.”

Meanwhile, some employees with student debt may still have reservations about paying it down, as long as there’s still a chance that federal loan forgiveness from the Biden administration or a future administration might be forthcoming.

The US Supreme Court most recently refused to reinstate Biden’s multibillion-dollar plan to reduce student loan payments in late August, turning down a request to lift a pause imposed by a federal appeals court in a lawsuit brought by Republican-led states.

“This administration has been the most borrower-friendly administration in a long time, but their efforts to do it without the assistance of Congress has created a situation where they’re undermining borrower trust in the system altogether,” Hoffman said.

Borrowers are ultimately left holding the bag, and an employer offering some form of relief in the dilemma of whether to save for retirement or pay down student debt is generally welcome.

“The problem is not the student loans, the problem is the cost of education,” Mayotte said. “We can put as many band-aids 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.”

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