Student Loan Repayment Program - A Retirement Plan Twist

A recent IRS decision allowing an employer to offer a student loan repayment (SLR) benefit as an element of its retirement plan could open the door to other employers interested in offering similar benefits. On August 17, 2018, the IRS issued Private Letter Ruling 201833012 (the PLR). The PLR addressed an individual plan sponsor's desire to amend its retirement plan to include a program for employees who were making student loan repayments. The form of this benefit would be an employer nonelective contribution (an SLR contribution).

Importantly, a PLR is directed to a specific taxpayer requesting the ruling, and applicable only to the specific set of facts and circumstances included in the request. That means other taxpayers cannot rely on the PLR as precedent. It is not a regulation or even formal guidance. However, it does provide insight into how the IRS would treat similar arrangements.

Under the specific program described in the PLR, the employer would make a 401(k) plan nonelective contribution on a worker's behalf if the worker was making a student loan payment of at least 2% of his/her salary for a given pay period. The current plan design in the PLR allows for a matching contribution equal to 5% of compensation for 2% of compensation deferred. As such, under the IRS approved plan, the employer would simply change the matching contribution to a nonelective contribution. The employees could receive 5% of compensation as an SLR contribution provided the amount of student loan payments they made during the year totaled at least 2%. The SLR contribution would be calculated at year-end. Importantly, the PLR states that the proposed program would allow participants to both defer into the retirement plan and make a student loan repayment at the same time, but they would only receive either the match or the SLR contribution and not both for the same pay period. Participants in the plan would not be required to defer into the 401(k) plan in order to receive the SLR contribution.

Finally, it is important to note that any contribution to the plan as an SLR contribution would be subject to the nondiscrimination testing provisions under the Internal Revenue Code. The student loan benefit would replace the company match for those participants who enroll and make the requisite loan payments. As such, the SLR contribution would effectively reduce or eliminate the matching contributions made for non-highly compensated employees, and potentially cause the plan to fail testing.

If you are considering adding a student loan repayment program to your benefits package and/or wish to explore the potential for a qualified plan integrated program, please contact your plan advisor.