Match Contributions for Student Loan Payments

Take-Away: The IRS recently provided guidance to employers who are considering an amendment to their 401(k) plans to authorize matching employer contributions to plan participants who use their earnings to repay student loans.

Background: The SECURE 2.0 Act allows for matching contributions on *qualified student loan payments* (or QSLPs) starting in 2024. However, this opportunity is only available if the employer-sponsored 401(k) plan offers this option. On August 19, 2024, the IRS issued Notice 2024-63 that answered several questions regarding QSLPs while it appears giving plan sponsors more flexibility to establish and administer a matching contribution for student loan repayments. Whether this additional guidance encourages more employers to add this matching contribution feature to their 401(k) qualified plans remains to be seen.

QSLP Matching Contributions: The following is a short overview of the QSLP matching contribution rules.

Available Plans: An employer's matching contribution can be provided by any 401(k) plan, a 403(b) annuity, a governmental 457(b) plan, or a SIMPLE IRA. So not just 401(k) plans are eligible to add this option.

Repayment of a Loan: To be a QSLP, the payment must be a *repayment* of a loan incurred by the plan participant to pay for the higher education expenses of: (i) the participant; (ii) the participant's spouse; or (iii) the participant's dependent.

Legally Obligated: Such a loan is *incurred* if the participant has a *legal obligation* to repay it. If the participant cosigns a dependent's loan, the participant must be making the payments for it to qualify as a QSLP matching contribution. If the participant's dependent is making the repayments on the student loan, then the participant may *not* have those payments matched by the participant's employer.

Amount: The total amount of QSLPs made for a calendar year cannot exceed the annual deferral limit that is then effect for that calendar year for 401(k), 403(b), and 457(b) plans. For 2024 that amount is

$23,000 plus an additional $7,500, or a total of $30,500, if the participant is then over the age 50 years, minus any elective deferrals made during that year.

Example: Adam, age 43, participates in his employer's 401(k) plan. That plan sponsor has opted to match QSLPs within its 401(k) plan. During 2024, Adam has $15,000 of qualified student loan payments. Adam may only make elective deferrals of up to $8,000 ($23,000 less $15,000= $8,000) during 2024 to the 401(k) plan.

Employer Responsibilities: The qualified plan sponsor must certify that: (i) the loan repayment satisfies the QSLP requirements; (ii) the amount of the loan repayment; (iii) the date of the loan repayment; and (iv) that the loan repayment was made by the plan participant. These certification rules that the employer must follow are fairly complicated. While the plan participant can self-certify all these requirements, there are other ways identified in the Notice to comply with the certification rules. Accordingly, each qualified plan may have a different 'level' of certification so it will be important for the plan participant to check those certification requirements in advance.

Non-Discrimination: A plan sponsor must make the QSLP matching contribution available to all employees who are eligible to receive matches on their elective deferrals. The plan sponsor cannot limit QSLP matches to loan payments for an employee's own education, such as for a particular degree program or for attendance at a particular college or university. Along the same lines, plan participants who are eligible to receive matches on their QSLPs must be eligible to receive matches on elective deferrals.

Vesting: QSLP matching contributions must be made at the same rate and under the same vesting schedule as the qualified plan's regular matching contributions. If the qualified plan imposes an eligibility condition on a QSLP match, e.g., requiring participants to be employed on the last day of the plan year to qualify for the QSLP 'matching' contribution, that same condition must apply to a *regular* matching contributions made by the employer sponsor.

Conclusion: An employer's matching contribution for a plan participant's repayment of his/her student loans is an interesting feature for qualified plan sponsors to consider if they want to help those plan participants to continue to save for their retirement while at the same time, they dig themselves out of their burdensome student-debt. However, the fact that the QSLP is an optional feature that must be accepted by the plan sponsor, along with additional certification responsibilities assumed by the plan administrator, makes me wonder just how many employers will actually amend their 401(k) plans to add this feature.

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