

AT A GLANCE: STUDENT LOAN 401(K) MATCH PROGRAM

COMBINING STUDENT LOAN REPAYMENT WITH RETIREMENT PROGRAMS

In June 2018, Abbott announced a 401(k) plan “match” for employees making student loan payments. For employers seeking to attract and retain college graduates in highly competitive fields, this is an opportunity to differentiate by addressing a key concern among job candidates. This “At A Glance” discusses the Abbott case and provides insights for employers when considering a similar offering to address the student debt challenge.

BACKGROUND

It is widely reported that student loan debt is a key obstacle to achieving financial stability for a significant portion of the US workforce. For example, 60% of student loan borrowers under age 35 expect to still be paying off their debt in their 40sⁱ. This problem affects more than just recent graduates as 10% of individuals between the ages of 55–64 have student debtⁱⁱ, often taking on debt on behalf of their children.

The newly implemented approach used by Abbott aligns with the unique design of its 401(k) program. The student loan “match,” technically an employer nonelective contribution, is made for employees who contribute 2% of pay towards student loan repayments *even if they don't contribute to the plan*. The non-elective contribution is the same 5% that they would have earned if they contributed 2% of their pay to the 401(k) plan.

[This new approach to funding employer contributions seeks to enable employees, burdened with significant student debt, build their retirement savings.](#)

To avoid IRS concerns, Abbott obtained a Private Letter Ruling (PLR) approving the program's design. The IRS ruled that the program did not violate the “contingent benefit” rule. **Employers should note that the Abbott PLR is not general guidance and is specific to this case.**

The “**contingent benefit**” rule prohibits an employer from directly or indirectly conditioning any benefit upon the employee's electing to make, or not make, elective contributions to a 401(k) or 403(b) plan.

Recognizing the growing interest in employer-provided student loan benefits, organizations like the ERISA Industry Committee and the American Benefits Council are advocating broader policy changes that would open the door for all employers to help employees save for retirement and cope with student loan debt.

KEEP IN MIND...

The Abbott PLR underscores some of the existing challenges that arise when linking 401(k) or 403(b) plans with student loan programs.

- Employers or their vendors must monitor participation in the student loan program and the 401(k) or 403(b) plan, recognizing that the employee could choose to start or stop payments and contributions throughout the year.
- Under most designs, employers will need to compare the level of student loan payments to the compensation earned during the period the payments were made. Because student loan payments typically do not flow through the employer, integration with a third party is likely to be necessary.

- Employers must consider the nondiscrimination testing implications. If the impacted employees previously contributed to the retirement plan but stop contributing under the new design, ADP/ACP test results may be adversely affected. Furthermore, the student loan “match” is subject to nondiscrimination testing, not as a “match,” but as a nonelective contribution, which may have broader testing implications.
- For employers offering safe harbor plans not subject to ADP/ACP testing, there are additional matters. Safe harbor contributions cannot be made at a higher rate for highly compensated employees than for non-highly compensated employees.
- **Will a vendor be needed to administer the program?** Mercer can help you review your existing vendor infrastructure to see if it will be most effective to run a new program in-house, work with one of your current vendors, or utilize a new 3rd party administrative platform. Mercer helps clients with competitive vendor searches, guiding employers through the due diligence plan design and implementation processes.
- **What is the program’s potential impact on your plan’s coverage and non-discrimination testing?** With Mercer’s experience as a market leader in retirement plan design, we help clients model projected non-discrimination testing results. This is based on current and alternative plan designs and expected student loan program participation.
- **What are the special challenges for safe harbor plans that use any matching contributions?** Mercer draws from extensive plan design experience to help you evaluate whether jettisoning your current safe harbor plan design might be worth the risk or if your objectives can be met within safe harbor’s confines.

HOW MERCER CAN HELP IN KEY AREAS

As you review whether a student loan 401(k) “match” program might be a good fit for your organization, here are ways that Mercer can help you address important questions:

- **Will this program benefit employees you most want to attract and retain? Could other student loan programs (outside of the retirement plan) better reach the goals of your employees and organization?** Mercer can estimate the student debt exposure of your employees and analyze participation in your 401(k) or 403(b) plan. This will help you evaluate which approach to assisting with student debt will be most meaningful for your workforce and organization.

If you would like more information about student loan assistance programs, or other financial wellness or retirement issues, please contact your Mercer consultant or email us at mercerv.finance-wellness@mercerv.com

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