Federal Student Loan Payments Resume After 3-Year Pause: Here's How Employers Can Help Their Workforce

Insights
10.04.23

October is here. That means football is in full swing, pumpkin spice lattes are plentiful, and federal student loan payments will resume after being on pause since 2020. Employees with student loan debt are feeling the pinch — which means now is a good time for employers to review what you can do to help your employees and hopefully boost your ability to attract and retain talent. Here are four key steps you can take this fall as you decide what benefits to potentially offer your workers who are struggling with student debt repayment.

1. Look at the Bigger Picture

The U.S. Supreme Court struck down the Biden Administration's $10,000 student loan forgiveness program in June, saying that the U.S. education secretary didn't have the authority to forgive this debt. With this decision now final, it may be time for employers to start talking about how to alleviate some of this financial pressure on employees (if you haven't already).

How can you help? You may consider offering employees and new hires some extra cash (such as a signing bonus) or an employee benefit (such as SECURE Act 2.0's student loan matching contributions in retirement plans or an expanded educational assistance program). We discuss these options in more detail below.

2. Consider Making Retirement Plan Matching Contributions

Under SECURE Act 2.0, employers can choose to treat employee student loan payments as plan elective deferrals – meaning that employers can make matching contributions on these loan repayment amounts.

To receive this matching contribution, eligible employees must self-certify that student loan payment are being made — though the plan sponsor is not required to independently review such payments. This is effective for plan years beginning after December 31 this year for any retirement plans governed under Section 401(k), 403(b), and 457(b) – as well as governmental plans and SIMPLE plans.

Keep in mind, this is <u>not</u> a mandatory requirement but instead is left up to the employer's discretion if you want to amend your retirement plans. If you do choose to amend your plan, here are some things to keep in mind:

- The student loans (or "qualified higher education loan repayments") include any higher education student loan debt for the employee – not for the employee's spouse, children, or other family members.
- These student loan matching contributions must be subject to the same vesting schedule as all other matching contributions.
- Employees may designate these student loan matching contributions as Roth contributions.

With 2024 a little less than three months away, questions remain for this optional retirement plan feature:

- How will this be administered?
- Can employers request documentation in addition to the employee's self-certification?
- Can employers exclude certain workers, such as highly compensated employees or those with a collective bargaining agreement?
- What about the timing of these matching contributions? The law provides that they must be made annually. But can employers administer these contributions monthly? Or with each payroll?

There's still much to figure out. And, hopefully, we'll get additional guidance from both the IRS and DOL soon.

3. Decide Whether to Expand Your Educational Assistance Programs

You should note that some benefits stemming from the pandemic are ongoing. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was originally signed into law on March 27, 2020. Soon after, the Consolidated Appropriations Act, 2021 (CAA 2021) was signed into law on December 27, 2020, continuing many of the financial programs and incentives in the CARES Act.

One continued financial program is the extension of the tax-free benefit for employer-provided student loan payments – up to $5,250 per year until January 1, 2026. Employees and independent contractors can participate in these newly expanded educational assistance programs — but spouses and dependents of eligible employees or independent contractors are not eligible.

While the advantages of these programs for employees may be obvious, you should note that employers can also benefit. Notably, the law permits employers to deduct these contributions as a business expense on annual tax filings. This is, of course, in addition to assisting employees with a very real concern and potentially boosting retention.

4. Develop Best Practices and Review for Compliance

According to a recent study, 75 percent of federal student loan borrowers said that resuming loan payments will impact their retirement savings. Additionally, 22% expect to reduce contributions to their workplace retirement plans, and 41% expect to increase their work hours or find side hustles to help make their monthly payments.

With this in mind, you may decide to offer student loan matching contributions through your retirement plan or offer an expanded educational assistance program to help ease the burden on employees. If so, you should consider taking the following three steps to develop best practices and ensure compliance:

1. Work with your recordkeeper on any amendments necessary to implement the discretionary student loan matching contribution.
2. Work with a qualified vendor or employee benefits lawyer to implement or expand your program while putting the proper administrative processes in place.
3. Implement any other process or procedures to help your business maintain operational compliance.

Conclusion

Stay tuned for updates as we monitor regulatory and departmental guidance regarding the administration of student loan matching contributions and expanded educational assistance programs. We will provide updates as warranted, so make sure you are subscribed to Fisher Phillips' Insight System to get the most up-to-date information directly to your inbox. In the meantime, if you have questions, feel free to reach out to your Fisher Phillips attorney, the author of this Insight, or any attorney in our Employee Benefits and Tax Practice Group.

Related People

Jennifer S. Kiesewetter
Partner
615.488.2905

615.488.2700
Email

Service Focus

Counseling and Advice

Employee Benefits and Tax