

IRS Approves 401(k) Student Loan Repayment-Based Employer Contributions

Chad DeGroot
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Last month, the IRS issued a Private Letter Ruling in which it approved a company's proposed program to condition employer contributions to a 401(k) plan on an employee making student loan payments.

The company recognized that many younger employees are unable to make 401(k) contributions due to student loan debt obligations, so in addition to its otherwise available 5% matching contribution, the employer implemented a program under which employees would receive the same limited employer contribution (rather than the match) if, instead of making elective deferrals to the plan, an employee was making student loan payments.

While the IRS is clear that private letter rulings are only applicable to the company requesting them, and while the Ruling left open several questions, such as those related to substantiation requirements and nondiscrimination implications, this Ruling certainly paves the way for a new benefit under 401(k) plans and a recruitment tool that could be very popular among employers and employees.

Attorneys

Chad R. DeGroot

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