

Retirement Parity for Student Loans Act

A Proposal to Help Build Retirement Savings

The Retirement Parity for Student Loans Act would permit 401(k), 403(b), SIMPLE and governmental 457(b) retirement plans to make matching contributions to workers as if their student loan payments were salary reduction contributions.

What's the impact?

The bill helps workers who cannot afford to both save for retirement and pay off their student loan debt. Under the bill, workers in this situation would continue to make their student loan payments, but they would also receive employer matching contributions into their retirement plan as if those student loan payments were salary reduction contributions made to the retirement plan. This allows these workers to build their retirement savings even while they are paying down their student loan debt and cannot afford to make their own contributions into the plan.

How would it work?

This is a voluntary benefit that employers may elect to provide to workers. It is not a mandatory requirement for 401(k), 403(b), SIMPLE and governmental 457(b) retirement plans. If an employer chooses to offer this benefit, then it must be made available to all workers who are eligible to make salary reduction contributions to the retirement plan and receive matching contributions on those salary reduction contributions. The benefit cannot be provided to workers who are not eligible to participate in the retirement plan. Additionally, the benefit must vest in the same manner as matching contributions for salary reduction contributions.

The benefit only applies to repayments of student loan debt that was incurred by a worker for higher education expenses. A worker must certify the amount of student loan repayments that have been made during a plan year in order to receive the benefit.

The rate of matching for student loans and for salary reduction contributions must be the same. For example, if a 401(k) plan provides a 100% matching contribution on the first 5% of salary reduction contributions made by a worker, then a 100% matching contribution must be made for student loan repayments equal to 5% of the worker's pay. Special rules apply if a worker makes both salary reduction contributions and student loan repayments. Under those rules, student loan repayments are only taken into account to the extent that the worker has not made the maximum annual contribution to the retirement plan—for example, the annual maximum contribution limit per worker is generally \$19,500 for 2021.

The bill also provides clarification on certain nondiscrimination rules that apply to 401(k) plans. These rules restrict the extent to which a retirement plan can benefit highly compensated workers as compared to nonhighly compensated workers, and contain safe harbors that deem the nondiscrimination rules are satisfied if certain matching or other employer contributions are made to the plan. The bill clarifies that matching on student loan payments does not violate these safe harbors. The bill also provides that if an employer does not use the safe harbors, then the employer may separately perform nondiscrimination testing with respect to workers that benefit from student loan matching contributions.

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Section by Section Summary

Section 1—Short title. The title of the bill is the Retirement Parity for Student Loans Act.

Section 2—Treatment of Student Loan Payments as Elective Deferrals for Purposes of Matching Contributions. This section permits 401(k), 403(b), SIMPLE and governmental 457(b) retirement plans to make matching contributions to workers as if their qualified student loan payments were salary reduction contributions.

The section also provides that a 401(k) plan that provides these matching contributions may continue to qualify as a safe harbor plan for nondiscrimination testing purposes. If a plan does not use a safe harbor, then the plan is also permitted to separately perform nondiscrimination testing with respect to employees that receive student loan matching contributions. These changes are effective for plan years beginning after 2021.

This section also instructs Treasury and IRS to develop model amendments for those employers who want to adopt this benefit as part of their retirement plans. The model amendments would ease compliance burdens for employers and would allow them to quickly implement this new benefit.