

IRS to Issue Formal Guidance on Student Loan Repayment Programs

By: Lyndsey Barnett on May 14, 2019 on graydon.law

At a conference late last week, an IRS official announced that the IRS was working on guidance to answer the many questions that it has received after the issuance of the PLR last August approving a unique student loan repayment arrangement inside of a retirement plan. With student loan debt continuing to rise and be an issue for employees, more and more employers are seeking ways to assist employees in paying off their student loans.

In that PLR (which is believed to have been issued to Abbott Laboratories), the IRS found that the plan design did not violate the contingent benefit rule. The employer in that PLR instituted a program that would enable all employees to be eligible to enroll in a voluntary student loan benefit program under the employer's 401(k) plan to take advantage of the employer's "match" even if they were not able to make elective deferrals to the plan. The employer makes a 5% matching contribution to any employee that defers at least 2% of compensation. If an employee enrolls in the program and makes a student loan repayment equal to 2% or more of his compensation, the employer will make a non-elective contribution to the plan equal to 5% of the employee's compensation for that period. The employee can receive the match or the non-elective contribution, but not both. The program is completely voluntary allowing an employee who enrolls to opt out at any time.

While this PLR provided a very welcome look at how the IRS may interpret a student loan repayment program in a retirement plan, it also left employers with a lot of unanswered questions. Not to mention the fact that a PLR can only be relied upon by the entity that applied for the ruling. Therefore, it is great news for employers that the IRS is working on more formal guidance. The agent making this announcement says that it is uncertain yet how comprehensive the guidance will be or when it will be issued. He also announced that the IRS will not accept any further PLR requests on this topic at this time. Stay tuned as we will update the blog once guidance is issued.