ERIC

The ERISA Industry Committee

Driven By and For Large Employers

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Will Hansen, Senior Vice President of Retirement Policy

The Honorable David Kautter
Acting Commissioner
Internal Revenue Service
U.S. Department of the Treasury
1111 Constitution Ave NW
Washington, DC 20224

RE: **Request for Revenue Ruling Relating to Employer Contributions to 401(k) Plan to Reflect Participant Student Loan Repayments**

Dear Mr. Kautter:

The ERISA Industry Committee ("ERIC") commends the Internal Revenue Service for issuing PLR-131066-17 (May 22, 2018), which permits a 401(k) plan sponsor to contribute to a 401(k) plan on behalf of plan participants who pay down student loan debt but do not necessarily contribute to the employer's 401(k) plan. ERIC writes to encourage the Internal Revenue Service to issue a revenue ruling that broadens the reach of this favorable guidance.

ERIC is the only national association that advocates exclusively for the nation's largest employers on health, retirement, and compensation public policies at the federal, state, and local levels. Our member companies offer employee benefits to millions of workers and families across the country, and promote retirement savings, financial wellness, and health care value improvements and cost savings. ERIC advocates for public policies that support the ability of large employers to offer benefits effectively and efficiently under the federal regulatory framework of ERISA

Workers in the United States are increasingly dependent on 401(k) and other defined contribution plans as their principal means of retirement savings. In this environment, workers who are unable to set aside a sufficient amount of their own money for their retirement are less likely to have a financially secure retirement. This problem is compounded by the fact that many employers "match" workers' contributions to their retirement plans, meaning that workers who fail to set aside a sufficient amount of money also lose out on the matching contributions.

This problem is particularly acute for workers who get a late start on retirement savings. Workers who do not begin setting aside money for their retirement early in their careers often are not able to "catch up" in their retirement savings. An estimate by the Vanguard Group shows that a worker who saves annually from ages 25-40 can expect to have more money at age 65 than a worker who saves the same amount annually from ages 35-65.[1]

[1] "When should you start saving for retirement?", The Vanguard Group (https://investor.vanguard.com/retirement/savings/when-to-start).

Student loan debt plays into both of these problems:

- *Student Loan Debt Reduces Participation in 401(k) Plans.* Student loan debt often prevents workers from electing to participate in 401(k) plans. A 2016 study by Prudential Financial noted that "[f]orty percent of graduates still paying down student loan debt say the cost of attending college has prevented or delayed saving for retirement,"[2] and another 2016 Prudential Financial report highlights the impact of workers losing employer matching contributions due to student loan debt repayments and encourages employers to "[c]onsider ways to help employees pay off student loans as well as save for retirement."[3]

- *Student Loan Debt Reduces Contributions to 401(k) Plans.* Student loan debt reduces the amount that a worker can contribute to a 401(k) plan. A recent study from the Center for Retirement Research at Boston College estimates that, for college graduates, retirement "assets are about 50 percent lower for those with student loans compared to those with no loans. These results suggest that among college graduates, the presence of a student loan does impact retirement saving."[4]

Many employers recognize the burden that student loan debt can have on their workers' ability to save for retirement and would like to help these workers. However, while we believe that current law allows employers to make contributions to their retirement plans on behalf of workers who repay student loan debt, the IRS has yet to clearly articulate that such contributions will not affect the tax-qualified status of an employer's retirement plan. The recently issued PLR is a significant step in this direction, but we believe that more employers would be encouraged to implement programs similar to the one described in the PLR if the IRS would issue a revenue ruling or other guidance of general applicability on this issue.

ERIC is uniquely situated to work with the IRS to develop such a revenue ruling to make sure that it has the maximum impact in helping workers strapped with student loan debt save for their retirement. If you agree that this is an issue worth addressing and that ERIC can be of further assistance, please do not hesitate to contact me at whansen@eric.org or (202) 627-1930.

Sincerely,

Will Hansen

Will Hansen
Senior Vice President, Retirement Policy

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[2] "Student Loan Debt Implications on Financial and Emotional Wellness," Prudential Financial https://www.prudential.com/media/managed/documents/rp/Prudential-Student-Loan-Brochure-2017.pdf

[3] "Planning for Retirement: The Growing Impact of Student Loan Debt on Retirement Security," Prudential Financial (February 2016) (https://www.prudential.com/media/managed/documents/rp/NRRI_Paper_Feb_2016.pdf).

[4] "Do Young Adults with Student Debt Save Less for Retirement?", Center for Retirement Research at Boston College (June 2018) (http://crr.bc.edu/wp-content/uploads/2018/06/IB_18-13.pdf).