MARINER

GOOD NEWS ON A TOUGH CHOICE:

Saving for Retirement vs. Repaying Student Loans

Young, college-educated professionals often face a financial dilemma: They'd like to contribute as much as possible to their employer-sponsored retirement plans, but student loan repayment obligations may make it difficult for them to do so.

Recent Legislation May Help Young Workers

Starting this year, employers can help. Under the SECURE 2.0 Act of 2022, employers are allowed to make contributions to an employee's retirement plan in tandem with payments that employees make toward their student loan debt.[1] Employers offering this benefit pay into a retirement account a percentage of the amount an employee repays to their lender—whether the employee contributes to the retirement plan or not.

The so-called matching contribution provision of the SECURE 2.0 Act, which went into effect at the beginning of 2024, may be especially beneficial to young workers with high levels of student debt. If their employer offers the matching benefit, they may not need to choose between repaying education loans and starting to build their retirement savings.

Why Starting to Save Earlier Matters

A big reason this is important is because the earlier an individual starts investing for retirement, the longer their funds have to compound. Consider this simple example: If an individual invested $400 per month starting at age 23, and earned a 7% annual return, she would have nearly $91,000 by age 35. Waiting until age 28 to start investing the same $400 per month, and earning the same return, she would have a little less than $44,000 by age 35.* That's a hypothetical example, but it illustrates how making investing a habit from an early age can add up over time.

How Student Loan Payment Matching Works

Under the SECURE 2.0 Act, employers can in effect treat employees' student loan payments as contributions to retirement plans, and match them, just as they might match an employee's retirement plan contribution. Importantly, it's not necessary for the employee to contribute anything to the retirement plan to get the match. It's hard to say at this early stage how many employers offer this benefit, so employees should verify with their employers whether this match is available and, if so, what the specific terms are. But large businesses that have reportedly done so include Dow Inc., News Corp., Masco Corp. and Unilever.[2]

Student Loan Debt Has Grown Rapidly

The ability to offer student loan payment-related retirement matches is the latest education-related benefit that employers have available to recruit and retain employees. Many already offer tuition assistance and tuition reimbursement programs, debt counseling and in some cases, direct help paying off student loans. These benefits have appeared amid rapidly growing student loan debt: In 2010, total U.S. student loan debt totaled about $800 billion; by 2023, it had ballooned to $1.74 trillion.[3]

What's Required for Matching Contributions

To qualify for employer student loan matching, employees must have an employer-sponsored 401(k), SIMPLE IRA, 457(b) or 403(b) retirement savings account. They need to make payments on their student loan debt and to "self-certify" that they are doing so. Employers can contribute matches to retirement accounts as employees repay loans that were used to pay for qualified higher education expenses such as tuition, student activity fees or books. Contributions to retirement plans cannot exceed the IRS's annual limits. For 2024, the contribution ceiling for 401(k), 403(b) and most 457 plans is $23,000, while the SIMPLE IRA contribution limit is $16,000.[4]

How Matching Contributions Might Work

Suppose a recent college graduate—let's call him Jack—starts a job at a company that offers a 401(k) plan with a student loan repayment matching benefit. Jack has $40,000 in outstanding qualified student loan debt from earning his bachelor's degree, and he wants to prioritize paying it off. He decides to pay $500 per month on his loans.

Let's say Jack's employer matches 50% of employees' qualified student loan payments, up to 3% of salary. Jack's salary is $60,000, so his employer contributes $1,800 annually into his 401(k) account. Even though Jack can't yet make direct contributions to his 401(k), his employer's matching contribution will allow him to start building retirement savings right away. Keep in mind that relying solely on employer matches may not be sufficient to meet retirement goals. Employees should still aim to contribute as much as possible to their retirement accounts.

We're Here to Help

The SECURE 2.0 Act may help make it easier for some individuals to make simultaneous progress on paying down their student debt and building retirement savings. It remains to be seen how broadly it will be adopted by employers, but it's just one of several strategies for balancing debt repayment and long-term savings. Your wealth advisor can help you determine the right approach for your unique situation. Working with Mariner, they can also design a comprehensive wealth plan that considers other factors as well, such as emergency savings, insurance needs and long-term financial goals.

For more information visit: **mariner.com**

Sources:

[1] "SECURE 2.0 Act Now Helps Lighten the Burden of Student Loans"

[2] "A New Perk for Some Student Loan Borrowers: A 401(k) Match"

[3] "Student Loan Debt Statistics in 2023"

[4] "401(k) limit increases to $23,000 for 2024, IRA limit rises to $7,000"

*The example is provided for illustration purposes only and is not intended to be representative of actual results or any specific investment, which will fluctuate in value. The determinations made by this example are not guarantees or projections, and no taxes or fees/expenses are included in the calculations, which would reduce the figures shown. Please keep in mind that it is possible to lose money by investing, and actual results will vary.