SCHOLAR'S EDGE 529

Investment management by: Principal®

# A PERFECT MATCH

## SECURE ACT 2.0 EMPLOYER MATCHING FOR STUDENT LOAN REPAYMENT

**STUDENT LOAN DEBT is a reality for many Americans, and paying off student debt is often an obstacle to saving for other things, such as retirement.[1]**

Americans have more than **$1.77 trillion** in student loan debt[2]

Student loan debt has seen a **43% increase** over the past decade[2]

Industry regulation continues to make it easier to achieve both education and retirement goals. As part of SECURE Act 2.0, employers can match an employee's student loan repayment with a contribution into their retirement plan. For recent graduates who are trying to get a strong start in life while prioritizing between mortgage payments, retirement savings, rising living costs and other expenses, this is a significant new development.

## A SMALL STEP WITH BIG IMPACT

**Employees now have a powerful new tool to help them pay down their student loan debt and achieve their retirement goals.**

Student loan payments can be matched by an employer by up to **$23,500 per year** similar to a 401(k) or other retirement plan and **$16,500 per year** for SIMPLE IRA plans (amounts for 2023).[3]

### Quick tip for saving for education in the workplace

Payroll deduction/direct deposit is one way to make it easier to successfully save for education. Directing money from a paycheck into a 529 plan allows savers to set it and forget it.

CASE STUDY

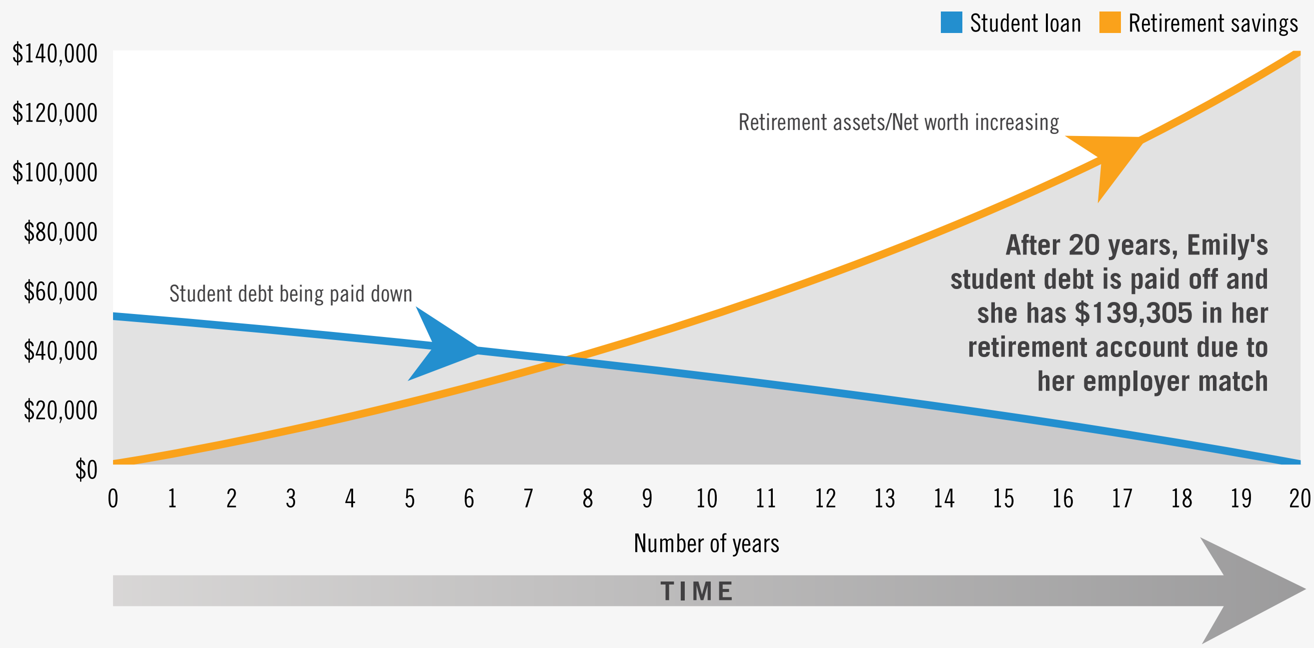
## Paying down student debt while saving for retirement is possible

### LET'S LOOK AT AN EXAMPLE:

Emily graduates from college with a student debt load of $50,000. Upon starting a new job, she decides to make a monthly qualified student loan payment of $300 through payroll deduction. Her employer elects to match this amount with a $300 contribution to Emily's 401(k) retirement account.

After 20 years, Emily would have saved $139,305 in her retirement account (assuming a growth rate of 6%). She would also have paid down her entire student loan during this period (assuming an interest rate of 3.9%*) and benefited from tax-deferred compounding in her retirement account.

* This represents the national average federal student loan interest rate according to the National Center for Education Statistics.




This hypothetical example is for illustrative use only and does not reflect an actual investment in any specific 401(k) retirement plan. The hypothetical example assumes an outstanding student loan amount of $50,000 at the beginning of the period with an interest rate of 3.9%/annum, compounded monthly. The participant will contribute $300 to her student loan repayment each month. The participant starts with $0 in her 401(k) retirement account at the beginning of the period, with the employer contributing $300/month, earning 6%/annum and compounded monthly, over 20 years. This example's assumed rate of return is not guaranteed and actual returns will vary.

**THE BENEFIT:** Recent graduates or those helping a loved one pay down student debt have the ability to pay off student loans more quickly while also saving for retirement, which can help reduce overall financial stress.

The new SECURE 2.0 employer matching is a win-win for reducing student loan debt and saving for retirement.

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[1] "Retirement Savings Take a Hit from Student Loan Debt: Study", Newsweek, February 9, 2024.

[2] "Student loan debt: Averages and other statistics in 2024", USA Today, September 29, 2024.

[3] "401K Limit Increases for 2025", IRS, November 1, 2024.

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