SAVE AND INVEST

Pay student loans or invest in your 401(k)? You may soon be able to do both at once

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Ryan Ermey

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Following the Supreme Court's ruling on President Joe Biden's student loan forgiveness plan, interest on student debt will begin to accrue in September, with payments due in October.

For millions of Americans, that means a hefty line item is about to reappear in their monthly budget. Both payments and interest have been paused since March 2020 as part of a wave of laws aimed at pandemic-era financial relief.

Borrowers with federal student loan payments currently owe $37,338, on average, with a median monthly payment of $250, according to the Education Data Initiative. And with inflation forcing budgets to tighten across the country, millions of Americans will soon find themselves in a familiar financial quandary: Should I pay off my loans or invest for retirement?

You may soon be able to do both at the same time more easily. A provision in 2022's "Secure 2.0" legislation allows companies, starting in 2024, to match a worker's student loan payment in the form of a contribution to their workplace retirement plan.

The idea is to provide a way for people who would otherwise have difficulty investing for retirement a way to access what financial planners refer to as "free

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money" while tackling a competing financial goal. Here's how it works.

How employers can match student loan payments in your 401(k)

In order to encourage employees to save for retirement, an employer might agree to match what you contribute, up to a certain percentage of your salary.

Assuming you have certain other financial bases covered, such as having an emergency fund and paying down high-interest-rate debt, financial planners will usually tell you that contributing at least enough to get your full match a is top financial priority. That's because you're instantly earning a 100% return on whatever you contribute — aka, "free money."

But for certain workers — especially those with piles of student debt — finding room in the budget to invest for retirement can be difficult.

Enter Secure 2.0, which passed in December 2022. Under the new law, employers can make matching contributions to workplace plans — including 401(k)s, 403(b)s, 457(b)s and SIMPLE IRAs — based on an employee's qualified student loan payments.

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of your payments.

The rules mandate that the same matching and vesting rules apply to all employees, whether you're receiving a match for retirement plan contributions or student loan payments.

Balance paying student loans with investing for retirement

The law is designed to help workers whose debt burden could keep them from investing enough to get an employer match or, indeed, from investing altogether.

Even if your employer doesn't offer the new form of matching, you'd be wise to try to find a balance between paying off debt and contributing to workplace retirement accounts, financial pros say. Beyond earning a match, by investing early in your 401(k), you're maximizing the effect of compound interest on your portfolio.

"The earlier you get your money into a retirement plan invested for you, the better off you're going to be long term," says

Catherine Valega, a certified financial planner with Green Bee Advisory in Winchester, Massachusetts. "It's important not to miss those early earning years, because you can't get those back."

When it comes to how to prioritize your money, it can be useful to think about the interest rate on debt you pay down as a return on your investment. In other words, paying off a student loan with an interest rate of 5% is the equivalent of earning a 5% return on a stock, bond or mutual fund.

Past performance is not guarantee of future results, but it's worth noting that the S&P 500 posted an annualized return of 10.34% from 1926 through the end of June, according to data from S&P Global.

"Obviously you want to tackle your student loans and don't want to miss payments or incur any penalties," says Jeremy Finger, a CFP and founder of Riverbend Wealth Management. "But there is a number on an interest rate where it makes more sense to pay it or invest the money. And with a traditional or Roth 401(k), you're getting tax-deferred or tax-free growth that maximizes your returns over time."