

SECTION 420

Asset transfers to 401(h)

§420 TRANSFERS OF EXCESS PENSION ASSETS TO RETIREE HEALTH ACCOUNTS

- §420 (a) General rule**
- (b) Qualified transfer**
- (c) Reqts of plans transferring assets**
- (d) Limitations on employer**
- (e) Definitions / special rules**
- (f) Qualified transfers**
 - Future retiree health costs /**
 - Collectively bargained retiree health**
 - benefits / Collectively bargained**
 - retiree life insurance benefits**

Item (f) modified by MAP-21

§420 QUALIFIED ASSET TRANSFERS TO §401(h) MEDICAL ACCOUNTS MAP-21

- Allowed for multiemployer plans
- No qualified transfers in years after 12/31/21
- No deduction allowed for transfer
- Can have one qualified transfer per year
- Assets transferred can only be used to pay qualified current retiree liabilities for the taxable year of the transfer
- Accrued benefits of any participant in pension plan must become nonforfeitable in same manner as would be required if the plan terminated immediately before transfer

§420(e)(2) QUALIFIED ASSET TRANSFERS TO §401(h) MEDICAL ACCOUNTS MAP-21

Qualified Transfer:

Transfer of excess pension assets to a health benefits account that is part of such plan

Excess Pension Assets:

Excess of (1) over (2), determined as of most recent valuation date

- (1) Lesser of market value or actuarial value of assets (both reduced by IRC 430(f) prefunding balance and carryover balance)**
- (2) 125% of {Funding target plus Target normal cost (IRC 430)}**

Calculation of Funding target and Target normal cost must ignore effect of MAP-21 on IRC 430 segment interest rates

§420(e)(2) QUALIFIED ASSET TRANSFERS TO §401(h) MEDICAL ACCOUNTS

Transfer can't exceed estimated amount the employer would pay out of the account (during taxable year of transfer) for Qualified Current Retiree Health Liabilities

§420(e)(1) QUALIFIED ASSET TRANSFERS TO §401(h) MEDICAL ACCOUNTS

Qualified Current Retiree Health Liabilities (QCRHL)

- Amount that would have been deductible for that taxable year, if paid directly by employer, and employer used cash basis accounting
- Reduction for amounts previously set aside:
$$\text{QCRHL} * (i) / (ii)$$
 - (i) Assets in health accounts + welfare funds set aside to pay for QCRHL
 - (ii) PV of future QCRHL (ignoring this reduction)
- Exclude key employees when calculating QCRHL

§420(e)(2) ASSET TRANSFER EXAMPLE 1

Market value of assets	8,000,000
Actuarial value	7,800,000
Carryover balance	100,000
Prefunding balance	0
Funding Target	4,000,000
Target Normal Cost	500,000

QUESTION

What is the amount of the qualified asset transfer?

§420(e)(2) ASSET TRANSFER EXAMPLE 2

Additions to data in Example 1:

Expected health benefits paid	2,000,000
Retiree health plan assets	4,500,000
PV Retiree health plan benefits	45,000,000

QUESTION

What is the amount of the qualified asset transfer?

§420(c)(3) QUALIFIED ASSET TRANSFERS TO §401(h) MEDICAL ACCOUNTS

Minimum Cost Requirement

- Applicable Employer Cost (AEC) is (i) / (ii)
 - (i) QCRHL for taxable year, ignoring reduction for amounts previously set aside
 - (ii) # of employees covered by applicable health benefits during taxable year
- Cost maintenance period
Five taxable years, starting with year of qualified asset transfer
- AEC for each year of Cost maintenance period must be \geq highest AEC in two taxable years preceding Cost maintenance period
- Exclude key employees when calculating Applicable employer cost

**§420(f) QUALIFIED ASSET TRANSFERS
FUTURE RETIREE COSTS / COLLECTIVELY
BARGAINED RETIREE LIABILITIES MAP-21**

In general, treat as a qualified transfer

420(e)(2) Excess Pension Assets

**Based on 120% of {Funding target plus Target
normal cost (IRC 430)}**

Maintain funded Status

**If excess pension assets < 0 , must contribute
more, or transfer assets FROM 401(h) account**

**Calculation of Funding target and Target
normal cost must ignore effect of MAP-21 on
IRC 430 segment interest rates**

**§420(f) QUALIFIED ASSET TRANSFERS
FUTURE RETIREE COSTS / COLLECTIVELY
BARGAINED RETIREE LIABILITIES MAP-21**

Limitation on amount transferred

**If transfer period is after taxable yr of transfer,
limit is sum of QCRHL estimated to be incurred
for each taxable year of transfer period**

Minimum cost requirement

**Average amount of Applicable Employer Cost
(AEC) for each year of Applicable period must
be \geq highest AEC in two taxable years
preceding Applicable period**

Applicable period

**From 1st year of transfer through end of 4th year
following transfer period**

§420(f)(3) QUALIFIED ASSET TRANSFERS

Transfer Period

A period of 2 or more consecutive taxable years which begins (and ends) during the 10 taxable year period beginning with the taxable year of the transfer

For subsequent transfers during the transfer period, reduce the QCRHL by any liabilities taken into account for a qualified future transfer

§420(f) QUALIFIED ASSET TRANSFERS

Transfer must be made based on CBA

Employer must provide written notice to each party of the CBA that this transfer is a collectively bargained transfer under 420(f)

During taxable year ending in 2005, plan provided health benefits or coverage to retirees, spouses and dependents under all the benefit plans maintained by the employer

Aggregate cost of benefits or coverage

- Would have been allowable as a deduction to the employer, if provided directly, and employer used cash basis accounting**
- At least 5% of gross receipts of employer**

§420(f) QUALIFIED ASSET TRANSFERS

Collectively bargained cost maintenance period (CBCMP) is the shorter of

- **The remaining lifetime of a covered retiree and their covered spouse / dependents, or**
- **The period of coverage provided by the collectively bargained retiree health plan, determined as of the date of the transfer**

Collectively bargained employer cost

Average cost per covered individual to provide collectively bargained health benefits under the applicable CBA

§420(f)(6)(C) QUALIFIED ASSET TRANSFERS

Collectively bargained health benefits

- **Benefits or coverage provided to retired employees / spouses / dependents who are**
 - **entitled to receive such benefits upon retirement (immediately before the collectively bargained transfer), and**
 - **entitled to pension benefits under the plan**
- **If specified by the provisions of the CBA governing the collectively bargained transfer), active employees / spouses / dependents) who are**
 - **entitled to receive such benefits, and**
 - **entitled to pension benefits under the plan**

**§420(f)(6)(B) QUALIFIED ASSET TRANSFERS
FUTURE RETIREE COSTS / COLLECTIVELY
BARGAINED RETIREE LIABILITIES MAP-21**

Collectively bargained retiree liabilities (CBRL)

- Present value of all collectively bargained health benefits and collectively bargained life insurance benefits, including admin. expenses
- Calculated at the beginning of a taxable year, in accordance with the applicable CBA
- Present value is for such taxable year and all subsequent taxable years during the CBCMP
- PV at close of plan year prior to year of the collectively bargained transfer
- Reduce by value of assets in all health benefits accounts (or welfare benefit funds) set aside to pay for the CBRL
- Key employees excluded

§420(f) QUALIFIED ASSET TRANSFERS

During CBCMP, assets transferred can only be used to pay CBRL, excluding any key employees

For subsequent transfers during CBCMP, reduce the QCHL by any liabilities taken into account for collectively bargained transfer

Limitation on amount transferred

Can't exceed estimated amount employer will pay for CBRL during the CBCMP

Minimum cost requirement

Collectively bargained employer cost can't be less than the amount specified in the CBA

Applicable period

Each taxable year during the CBCMP

§420(f)(4) QUALIFIED ASSET TRANSFERS

Key employees are not taken into account in calculating CBRL or the Collectively bargained employer cost

Special deduction rules for collectively bargained transfers

- **In general, amounts can be deducted**
- **Deductibility governed by limits applicable to contributions to welfare benefit fund under CBA**
- **Ignores whether contributions are made to a health benefits account or a welfare benefit fund**
- **Ignores provisions of Section 404 or other provisions of section 420**

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