

Internal Revenue Service

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Department of the Treasury

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Third Party Communication: None

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Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:EEE:EB:QP3

PLR-107204-25

Date:

August 22, 2025

Legend

Taxpayer =

Pension Plan I =

Pension Plan II =

Retiree Medical Plan =

Insurance Company =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Date 7 =

Date 8 =

Date 9 =

Year A =

Amount B =

Number C =

Dear :

This is in response to your letter, dated March 5, 2025, as supplemented by information dated June 10, 2025, submitted on your behalf by your authorized representative. The letter requests a ruling related to the use of funds from section 401(h) accounts to pay

for the retiree medical benefits of retirees whose pension payments have been annuitized.

Facts

The following facts and representations have been submitted under penalties of perjury in support of the rulings requested:

Taxpayer was established in Year A. Taxpayer is the parent company of various subsidiaries. Taxpayer's annual accounting period is the calendar year. Taxpayer uses the accrual method of accounting.

On Date 1, Taxpayer established Pension Plan I, a defined benefit plan with a final average pay benefit formula. Pension Plan I is a calendar year plan that uses the accrual method of accounting.

Effective Date 2, Taxpayer established the Retiree Medical Plan. The Retiree Medical Plan is a calendar year plan that uses the accrual method of accounting.

Effective Date 3, Taxpayer amended Pension Plan I to close participation to new hires not represented under a collective bargaining agreement (non-represented employees) and established a cash balance plan (Cash Balance Plan) for non-represented employees hired on or after Date 3.

Effective Date 4, Taxpayer amended Pension Plan I to close participation to new hires represented under a collective bargaining agreement (represented employees) and established a new cash balance plan (Represented Cash Balance Plan) for represented employees hired on or after Date 4.

Effective Date 5, the Cash Balance Plan and Represented Cash Balance Plan were merged into Pension Plan I. Following the merger, Pension Plan I consisted of three components: (1) a Final Average Pay Component, (2) a Cash Balance Component, and (3) a Represented Cash Balance Component. The benefits under each component did not change as a result of the merger.

Effective Date 6, certain assets and liabilities were spun off from Pension Plan I to a newly established pension plan (Pension Plan II). Pension Plan II is a calendar year plan that uses the accrual method of accounting.

Both Pension Plan I and Pension Plan II (collectively, Pension Plans) have the three previously described components: (1) the Final Average Pay Component, (2) the Cash Balance Component, and (3) the Represented Cash Balance Component. Benefits did not change under any of the components as a result of the spin off.

Pension Plan I predominantly covers non-active participants. Pension Plan II predominantly covers active participants.

On Date 7, Taxpayer entered into an agreement with Insurance Company to purchase a group annuity contract to transfer approximately Amount B of liabilities under the Pension Plans. The Insurance Company assumed responsibility for making pension payments for approximately Number C retirees from certain subsidiaries, beginning with the Date 8 payment. This transaction is referred to as the “Lift Out,” and the impacted retirees are referred to as the “Annuitized Retirees.”

Designated pension assets, held in section 401(h) accounts in the Pension Plans, are used to pay medical and related administrative expenses for certain retirees who are eligible for subsidized retiree medical benefits under the Retiree Medical Plan. The Lift Out included Annuitized Retirees whose medical benefits are paid, in part, with assets from the section 401(h) accounts. The Annuitized Retirees whose medical benefits can be funded with section 401(a) assets are the Annuitized Retirees who were participants in the Final Average Pay Components of the Pension Plans. Participants in the Cash Balance Components and Represented Cash Balance Components are not entitled to subsidized retiree health benefits under the Retiree Medical Plan.

After the Lift Out, the Annuitized Retirees continued to be eligible for benefits under the Retiree Medical Plan. The Insurance Company agreed to deduct the amount of premiums for Annuitized Retirees’ coverage under the Retiree Medical Plan from the Annuitized Retirees’ pension payments. Taxpayer desires to continue to use section 401(h) account assets under the Pension Plans for the Annuitized Retirees’ retiree medical benefits.

The Final Average Pay Component of the Pension Plans provides:

The purpose of this Section 15 is to set forth the medical, hospitalization, sickness and related benefits (the “medical benefits”) provided to certain retired Participants, their dependent Spouses and their other dependents under the Plan in accordance with Section 401(h) of the Code. The provisions of this Section 15 shall apply only with respect to Participants covered by the Medical-Dental Plan for Retired Employees of [Taxpayer], any successor to such plan or such other plan as shall be set forth in a plan supplement which specifies that this Section 15 will be applicable to such Participants.

The Pension Plans define Participant as “any Eligible Employee or former Eligible Employee of the Company or a Participating Affiliate who has met the eligibility criteria in Section III of the Plan.”

Effective Date 9, the Pension Plans were amended to provide that the section 401(h) accounts could be used for Annuitized Retirees.

Taxpayer represents that no section 420 transfers were made to the Pension Plans' section 401(h) accounts.

Ruling Requested

Taxpayer requests a ruling that the payment of health benefits from the Pension Plans' respective section 401(h) accounts for Annuitized Retirees does not violate section 401(h) or § 1.401-14 or otherwise jeopardize the tax-qualified statuses of Pension Plans I and II under section 401(a).

Law

Section 401(a) describes the requirements for a qualified trust created or organized in the United States and forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of the employer's employees or their beneficiaries.

Section 401(h) provides in relevant part that, under regulations prescribed by the Secretary, and subject to the provisions of section 420, a pension or annuity plan may provide for the payment of benefits for sickness, accident, hospitalization, and medical expenses of retired employees, their spouses, and their dependents, but only if—

- (1) the benefits are subordinate to the retirement benefits provided by the plan;
- (2) a separate account is established and maintained for the benefits;
- (3) the employer's contributions to the separate account are reasonable and ascertainable;
- (4) it is impossible, at any time prior to the satisfaction of all liabilities under the plan to provide the benefits, for any part of the corpus or income of such separate account to be (within the taxable year or thereafter) used for, or diverted to, any purpose other than the providing of the benefits; and
- (5) notwithstanding the provisions of section 401(a)(2), upon the satisfaction of all liabilities under the plan to provide the benefits, any amount remaining in the separate account must, under the terms of the plan, be returned to the employer.

Section 1.401-14(a) provides that, under section 401(h), a qualified pension or annuity plan may make provision for the payment of sickness, accident, hospitalization, and medical expenses for retired employees, their spouses, and their dependents. The term "medical benefits described in section 401(h)" is used in § 1.401-14 to describe such payments.

Section 1.401-14(b)(1) provides that, under section 401(h), a qualified pension or annuity plan may provide for the payment of medical benefits described in

section 401(h) only for retired employees, their spouses, or their dependents. To be “retired” for purposes of eligibility to receive medical benefits described in section 401(h), an employee must be eligible to receive retirement benefits provided under the pension plan, or else be retired by an employer providing such medical benefits by reason of permanent disability. For purposes of the preceding sentence, an employee is not considered to be eligible to receive retirement benefits provided under the plan if the employee is still employed by the employer and a separation from employment is a condition to receiving the retirement benefits.

Section 1.401-14(b)(3) provides that contributions to provide the medical benefits described in section 401(h) may be made either on a contributory or noncontributory basis, without regard to whether the contributions to fund the retirement benefits are made on a similar basis. Thus, for example, the contributions to fund medical benefits described in section 401(h) may be provided for entirely out of employer contributions even though the retirement benefits under the plan are determined on the basis of both employer and employee contributions.

Section 1.401-14(c) sets forth requirements which must be met for a qualified pension or annuity plan to provide medical benefits described in section 401(h):

- (1) The plan must specify the medical benefits described in section 401(h) which will be available and must contain provisions for determining the amount which will be paid. Such benefits, when added to any life insurance protection provided for under the plan, must be subordinate to the retirement benefits provided by such plan.
- (2) A separate account must be maintained with respect to contributions to fund medical benefits described in section 401(h).
- (3) Amounts contributed to fund medical benefits, as described in section 401(h), must be reasonable and ascertainable.
- (4) It must be impossible, at any time prior to the satisfaction of all liabilities under the plan to provide for the payment of medical benefits described in section 401(h), for any part of the corpus or income of the medical benefits account to be (within the taxable year or thereafter) used for, or diverted to, any purpose other than the providing of such benefits.
- (5) The plan must provide that any amounts which are contributed to fund medical benefits described in section 401(h) and which remain in the medical benefits account upon the satisfaction of all liabilities arising out of the operation of the medical benefits portion of the plan are to be returned to the employer.

Analysis

The second sentence of § 1.401-14(b)(1) provides that an employee is eligible to receive medical benefits from a 401(h) account as a “retired employee” if the employee is eligible to receive retirement benefits under the associated pension plan. Before the Lift Out, the Annuitized Retirees were eligible to receive retirement benefits under the Pension Plans. The Annuitized Retirees therefore met the definition of “retired” under § 1.401-14(b)(1) prior to the Lift Out.

Annuitized Retirees are currently eligible, post-Lift Out, to receive retirement benefits under the Pension Plans. The Annuitized Retirees therefore meet the definition of “retired” under § 1.401-14(b)(1). The Pension Plans may therefore provide for the payment of medical benefits described in section 401(h) for the Annuitized Retirees.

Ruling

We conclude that the payment of health benefits from the Pension Plans’ respective section 401(h) accounts for Annuitized Retirees does not violate section 401(h) or § 1.401-14 or otherwise jeopardize the tax-qualified statuses of Pension Plans I and II under section 401(a).

The ruling contained in this letter is based upon information and representations submitted by Taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party, as specified in Rev. Proc. 2025-1, 2025-1 IRB 1, section 7.01(16). This office has not verified any of the material submitted in support of the request for ruling. This material is subject to verification upon examination. The Associate Office will revoke or modify a letter ruling and apply the revocation retroactively if there has been a misstatement or omission of controlling facts, the facts at the time of the transaction are materially different from the controlling facts on which the rulings were based, or—in the case of a transaction involving a continuing action or series of actions—the controlling facts change during the course of the transaction. See Rev. Proc. 2025-1, section 11.05.

Except as specifically set forth above, no opinion is expressed or implied concerning the federal tax consequences of any aspect of any transaction or item discussed or referenced in this letter ruling. In addition, no opinion is expressed as to whether the Pension Plans satisfy any requirements of section 401(a) not expressly discussed.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Jeremy D. Lamb
Senior Counsel
Qualified Plans Branch 2
Office of Associate Chief Counsel
(Employee Benefits, Exempt Organizations, and
Employment Taxes)

cc: