



Spending deal lets DB plan sponsors quit 420 transfers

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Defined benefit (DB) plan sponsors that have made “qualified future transfers” of pension assets to prefund retiree health or life insurance benefits can end those transfers early, under a provision in the fiscal 2021 appropriations and coronavirus relief package ([Pub. L. No. 116-260](#)). Sponsors have until Dec. 31, 2021, to elect to end the transfer period effective for any subsequent taxable year.

Internal Revenue Code Section 420(f) lets sponsors of overfunded DB plans use excess plan assets to prefund retiree health and life insurance benefits for any period of consecutive years during the 10-year period starting on the date of the transfer. DB sponsors making qualified future transfers must meet use, vesting and employer cost-maintenance requirements similar to the rules for regular one-year Section 420 transfers, but with certain modifications. For these multiyear transfers, the sponsor must also maintain the pension plan’s funding level for the entire transfer period and the next four years. For this purpose, assets (minus the plan’s credit balance) must exceed 120% of the plan’s funding target plus target normal cost.

The new relief gives sponsors a temporary opportunity to put an early end to existing qualified future transfers and take all the unused money back. The minimum employer-cost requirements will still apply throughout the rest of the transfer period. Sponsors making the election still must meet certain reduced funding-level requirements for the DB plan during the original transfer period and the next five years. Any assets that return to the DB plan are treated as a reversion to the employer and are subject to a 20% excise tax. However, employers can avoid the excise tax if the funds are repaid to the retiree health or life insurance account within five years of the end of the original transfer period.

Section 420(f) also provides for collectively bargained transfers under similar terms, but the new relief does not apply to those arrangements.

Related resource

- [Pub. L. No. 116-260](#), the Consolidated Appropriations Act (Congress, Dec. 27, 2020)

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