

401(H) and Cash Balance Pension Plan

- 401(h) accounts are part of a Cash Balance Pension Plan
- Created for paying medical-related expenses during retirement
- Must be separately funded
- Contributions are part of the cash balance pension plan and are tax deductible
- Less than 1% of cash balance pension plans contain the 401(h) option
- When funds are withdrawn, the money is tax free for individuals and dependents.
- Americans are living longer and seeing their healthcare costs rise every year

Section 401(h) of the Code permits a pension or annuity plan to provide for payment of benefits for sickness, accident, hospitalization and medical expenses for retired employees, their spouses and dependents.

Accordingly, the exclusive method for providing medical benefits is by utilizing a section 401(h) account.

Section 1.401-14(c)(2) of the regulations provides that a separate account must be established and maintained within the pension trust to provide for retiree medical benefits.

This provision requires a separate accounting of the medical benefits provided within the pension plan.

Section 401(h)(3) provides that the employer's contribution to such account must be reasonable and ascertainable.

Section 1.401-14(c)(1)(i) of the regulations provides that 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.

Section 401(h)(4) provides that all contributions (within the taxable year or thereafter) to the 401(h) account must be used to pay benefits provided under the medical plan and must not be diverted to any purpose other than the providing of such benefits.

Section 401(h)(5) of the Code provides that upon the satisfaction of all liabilities under the plan to provide such benefits, any amount remaining in such separate account must, under the terms of the plan, be returned to the employer.

- The plan design utilizes three qualified plans:
 1. Cash Balance Pension Plan
 2. Safe Harbor 401 (k) Plan
 3. Profit Sharing Plan
- This design allows an Employer to favor Key Employees.
- The Cash Balance Pension Plan can also provide plan beneficiaries with tax free life insurance proceeds

- Adding life insurance to the plan increases the deductible annual cash balance contribution
- The 401 H account allows up to 25% of a participant's funds to be withdrawn tax free to pay for qualifying medical expenses

Partial listing of post-retirement medical benefits that may be provided under a Pension plan:

- Acupuncture
- ADD Counseling and Assistance
- Air Lift Transportation
- Laboratory Fees
- Alternative Healthcare
- Lasik Eye Surgery
- Ambulance Hire
- Artificial Limbs
- Assisted Living Facilities
- Long Term Care, Nursing Homes
- Birth Control Pills
- Braces
- Membership Fees for Medical Services
- Chiropractors
- Health club memberships
- Contact Lenses
- Co-Pays
- Cosmetic Surgery
- Operations (100% of All Costs)
- Cost for Care Outside the United States
- Deductibles & Premiums for LTC
- Dental Cosmetic Surgery
- Spa Facilities
- Prosthetics
- Psychiatric Care
- Dermatologist Care
- Diagnostic Fees
- Specialists and Specialized Treatments
- Specially Equipped Cars
- Care Costs for Disabled Dependents
- Transport Expenses for Medical Services
- Fees of Licensed Osteopaths including Preventative Care
- Hair Transplants
- Health Insurance Premiums
- Hearing Devices and Batteries
- Weight Loss Programs
- In Home Care
- Personal Trainers
- Physical Therapy
- Physician Fees

Questions?



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