



AMERICAN BENEFITS COUNCIL

February 16, 2012

The Honorable Dave Camp
Chairman,
U.S. House of Representatives
Committee on Ways and Means

The Honorable Sander M. Levin
Ranking Member,
U.S. House of Representatives
Committee on Ways and Means

Dear Chairman Camp and Ranking Member Levin:

We are writing in support of a proposal to extend transfers of excess pension plan assets to pay for retiree health care under Section 420 of the Internal Revenue Code, and to expand the provision to permit transfers to pay for retiree life insurance.

Section 420 was enacted in 1990 after lengthy debate in Congress. The section permits the transfer of assets from significantly overfunded pension plans (that is, plans with assets in excess of either 120% or 125% of liabilities depending on the type of transfer) to pay for retiree health care costs. This section has performed as intended. Over the years, Section 420 transfers have facilitated the continuation of retiree health insurance for countless retirees with no significant negative impact on pension funding. Since there are so few ways to pre-fund retiree health care costs, Section 420 transfers are a useful tool to meet the future health care needs of American workers. Congress has extended Section 420 three times since 1990 – including on the Pension Protection Act of 2006.

The proposal also slightly expands Section 420 to permit transfers to pay the costs of retiree life insurance. Retiree life insurance is generally a smaller cost than retiree health insurance, but it plays an important role in the financial security of a surviving spouse.

According to the Joint Committee on Taxation, this proposal will raise a small amount of revenue: \$363 million over 10 years.

We hope you can support this proposal and that you or your staff will call on us if we can provide you with any additional information regarding Section 420 transfers.

Sincerely,

Diann Howland
Vice President, Legislative Affairs