Employee Benefits Newsletter
December 2024

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IRS Approves Game-Changing Approach to Employee Benefits

Earlier this year, the Internal Revenue Service ("IRS") issued Private Letter Ruling 202434006 (the "PLR") approving an arrangement under which an employer permits its employees to allocate employer contributions to the benefit account of the employee's choosing. If the IRS chooses to expand the guidance in this PLR to other employers, this could dramatically change an employer's approach to providing benefits to employees.

As described in the PLR, employees were given the choice of allocating their employer contribution among four different benefits:

1. a defined contribution retirement plan;
2. a retiree health reimbursement arrangement;
3. a health savings account; and
4. a qualified educational assistance program.

Employees could elect to allocate different percentages of employer contribution among the different benefits. The election would be made annually before the start of each year and is irrevocable when made. The IRS clarified that the employer contribution could *not* be paid in cash or another taxable benefit.

A PLR applies only to the employer to whom it is issued, but the PLR can serve as a guide to other employers considering the use of a similar benefit arrangement or structure. This PLR demonstrates that the IRS is open to different structures that allow participants to allocate their employer contributions among various employee benefits—potentially even benefits that are not addressed in the PLR. Since PLRs are often very fact-dependent, the safest approach is for an employer considering a benefit arrangement that differs from the facts in the PLR to obtain its own favorable PLR from the IRS.

If you are interested in adding similar flexibility to your employee benefits lineup, or if you have questions regarding potential benefits structures like those in the PLR, please reach out to a member of our Employee Benefits and Executive Compensation group.