

Recent IRS Private Letter Ruling May Reshape Employer Benefits

The IRS has recently issued Private Letter Ruling (PLR 202434006), which could significantly reshape employer-funded retirement plans by providing employees with greater flexibility regarding the allocation of employer contributions. This ruling allows for the possibility of structuring plans that offer employees various options for their benefit dollars, overcoming previous tax code restrictions that rendered such choices taxable. With widespread implications anticipated, we recommend employers start considering how these new options can enhance their benefits strategies.

Overview of PLR 202434006

The IRS's PLR 202434006 represents a landmark shift in the design of employer-funded retirement plans, specifically enabling employee choice in the distribution of employer contributions. Traditionally, the IRS tax code restricted employers from offering employees choice in how their contributions were utilized, leading to potential tax implications that discouraged such flexibility. This ruling addresses those limitations, paving the way for flexibility and choice in benefit options for millions of employees.

Key Implications

1. Expect tax code changes

A PLR can only be relied on by the taxpayer that requested it. This employer received approval to offer employees an option to allocate contributions toward a 401(k), a Health Savings Account (HSA), a retiree Health Reimbursement Arrangement (HRA), Tuition Reimbursement, and/or Student Loan Repayment (SLR) Assistance. There is a strong belief among industry experts that the IRS will expedite the formal codification of this ruling into the tax code as other employers file their own PLRs to leverage this opportunity. We also expect the categories of eligible choices written into the tax code will be broader than this PLR (e.g. Dependent Care FSAs).

2. Benefit choice and flexibility has arrived

Benefit choice is emerging as a critical trend in total rewards, as different generations in different life stages prioritize different benefits. According to Mercer's 2024 Global Talent Trends Study, the top request from employees to improve compensation is having more options and the ability to personalize their benefits.

This PLR foreshadows a unique opportunity for employers to better serve all segments of the workforce with tax-advantaged choice and flexibility.

3. Employee choice adds employer complexity

Some employers wanting to migrate to a more flexible plan design have been discouraged by the legal, compliance, tax and administrative challenges associated with an employee choice model. This PLR reduces tax-related hurdles, but adds compliance and administrative complexity.

Administration of these new plan designs will require more advanced tech capabilities including robust regulatory compliance systems, cross-benefit coordination, and the development of strong decision-support tools for employees.

Tuition.io administers a similar choice-model benefit plan for several employers, with the first launch in 2019. Our platform is configurable to support each employers' unique choice plan design, including associated compliance and employee decision-making tools.

Thinking Ahead

- **Plan Design:** Now is the time to explore and evaluate options to enhance your benefit plan design to leverage this new flexibility.
- **Decision Support for Employees:** As choices expand, decision support tools will be needed to guide employees to their best option at each benefit election event.
- **Early Mover Advantage:** Companies that adapt quickly and roll out more flexible benefits may position themselves favorably in competitive job markets.



Contact your dedicated
representative
if you have questions or need
further information or email
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ADDITIONAL TUITION.IO RESOURCES AVAILABLE TO YOU

Plan design consultation.

Tuition.io has been consulting to a growing number of employers seeking to introduce a choice-model benefit plan design. If you are leaning toward this emerging model, we can help you think through plan design options, compliance and administration.

Administration.

If this approach is right for you, we hope you consider Tuition.io as your administration partner. Our single platform solution simplifies the experience for employees and compliance for the employer.

Quick links.

- Read the [IRS Private Letter Ruling 202434006](#) (employer is redacted).
- Download Mercer's [2024 Global Talent Trends study](#); scroll to page 29 for citation.

This private letter ruling marks a pivotal moment in employee benefits, and staying ahead of these changes will be crucial for HR and retirement benefit professionals. Tuition.io is dedicated to keep you apprised of developments and to be your advisor in this dynamic regulatory landscape.