



Jerry Geisel

Captive retiree health funding approach is insurance: IRS

May 21, 2014 - 3:37pm

[f Share](#) 1 [T](#) Tweet 7 [in Share](#) 6 [COMMENTS](#) [REPRINTS](#) [Print](#) [Email](#)

Benefit experts are welcoming an IRS revenue ruling making clear that a retiree health care benefits funding approach utilizing an employer's captive insurance company is insurance and is entitled to favorable tax treatment.

Revenue Ruling 2014-2015 was triggered by The Coca-Cola Co., which sought IRS guidance on its five-year-old plan to fund health care benefits for more than 4,000 retirees through the interplay of a voluntary employee beneficiary association it established in 2006; the company's South Carolina-based captive insurer, Red Re Inc.; and fronting insurer Prudential Insurance Co. of America.



While Coca-Cola asked for a private letter ruling, which has no precedential value, the IRS issued a revenue ruling, which can be relied on by other employers.

In its ruling, the IRS laid out a situation — similar to what Coca-Cola wants to do — in which an employer's VEBA pays retirees' health care claims and is reimbursed by a policy it purchases from an insurer. The insurer, in turn, is reimbursed through a reinsurance policy it purchases from the employer's captive.

In its ruling, the IRS said the transaction between the insurer and the captive constituted insurance, with the captive then being considered an insurance company, resulting in favorable tax treatment, such as tax deductibility of reserves it establishes.

Coca-Cola said in a statement that it was “pleased to see the Revenue Ruling” and now is in the process of reviewing “so that we can move ahead.”

In the wake of the ruling, other employers may follow the approach Coca-Cola is taking.

“Companies can set aside money to fund a liability, like retiree medical, and do so in the most cost-effective manner because they are using their captive insurer to do so,” said Karin Landry, a managing partner with Spring Consulting Group L.L.C. in Boston.

The approach, said Mitchell Cole, Stamford, Connecticut-based managing director of Towers Watson & Co.'s retiree insurance solutions unit, is very complex, and as a result will appeal only to those employers that can reap a significant financial gain by funding retiree medical coverage.