



CITY OF SUNRISE, FLORIDA

POLICE OFFICERS' RETIREMENT PLAN



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TO: All Concerned Retired Members
FROM: David M. Williams
SUBJECT: Corrected 10-99R for 2007
DATE: February 29, 2008

Dear Member:

I was notified today that Fiduciary Trust (FTIS) issued a "Corrected 10-99R" to members who pay for health insurance through a payroll deduction. Apparently FTIS reported your healthcare payment on the 10-99R in error, and thus were required to correct the issue by sending out the revised 10-99R forms.

The following information was obtained from our Board Attorney, Mr. Lee Dehner concerning the matter. After reviewing this information, you will understand how the health insurance tax credit is to be reported to the Internal Revenue Service.

Section 845 of the Pension Protection Act of 2006, signed into law August 16, 2006, provides for a tax-free distribution from a pension plan of up to \$3,000 per year to help pay premiums on health insurance or long-term care insurance for a retired public safety officer, his spouse and dependents. The employee must have separated from service due to a disability or after attaining normal retirement age. There had been some confusion on how to make sure these payments are "excluded" from taxable income. (There had been some notion that such amounts should be reflected as a reduction in taxable income on Form 1099R (Box 2a).) Well, that idea is problematic in that the retirement plan not the entity making the decision that the medical premium payment should be excluded from the individual's taxable income. The election must be made by the individual. Besides, the retirement plan may not have sufficient information to determine whether the payments can be excluded by the individual (for example, the individual may be receiving retirement income from more than one plan). The instructions to Form 1040 for 2007 contain the solution. If you are an eligible retired public safety officer, you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for accident or health insurance or long-term care insurance. The

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premiums can be for coverage for you, your spouse or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the lesser of the amount of the insurance premiums or \$3,000. You can only make this election for amounts that would otherwise be included in your income.

If you make this election, reduce the otherwise taxable income from your pension or annuity by the amount excluded. (The amount shown in Box 2a of Form 1099-R does not reflect the exclusion.) Report your total distributions on Line 16a and a taxable amount on Line 16b of Form 1040. Enter "PSO" next to Line 16b.

I am sorry that this letter is coming after the fact, but this was the first that I was made aware of the re-issuance of the 10-99R. If further clarification is required, kindly speak to your tax advisor.

Respectfully,

A handwritten signature in black ink, appearing to read 'DMM', followed by a horizontal line extending to the right.

David M. Williams, *Plan Administrator*

FOR THE BOARD

c: Lee Dehner, Attorney
Ann Orsek, FTIS
Board of Trustees
Member (file)