

HOW TO “EXCLUDE” INCOME DISTRIBUTIONS USED TO PAY FOR INSURANCE

While all current eligible members were notified of this information, the Board wanted to inform everyone of this issue for future use. As you may recall, 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 premiums can be for coverage for you, your spouse or dependents. The distribution must be made directly from the plan to the insurance provider (*Currently, the System is set-up to make insurance payments to the City of Sunrise only*). 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.

In closing, if you are an eligible retired public safety officer and paying for applicable insurance, you can shelter some or all of the costs. Please share this information with your tax advisor.

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