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Pension Protection Act of 2006

Gross Income Exclusion for Health Insurance Premiums Up to \$3,000 annually

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Frequently Asked Questions (FAQ) & Answers

1: Are members of OP&F considered eligible public safety officers as defined by the Pension Protection Act of 2006?

Yes. OP&F members qualify as eligible public safety officers if they have retired on a normal service retirement (i.e. age 48 with 25 years of service), age service commuted (i.e. age 62 with 15 years of service) or disability benefit recipient.

2: Whom will this gross income exclusion benefit?

The gross income exclusion will benefit eligible service or disability retired public safety officers who have qualified health insurance premiums deducted directly from their pension. This can include premiums paid on behalf of the member, spouses and dependents when the premiums are paid directly from the eligible public safety officer's service or disability pension.

3: Does this gross income exclusion apply to survivors?

No. Once an eligible public safety officer is deceased this gross income exclusion stops.

4: Does this gross income exclusion apply for deductions made in the year the eligible public safety officer dies?

Yes. The gross income exclusion can be taken from the IRS Form 1040 for deductions taken from the eligible public safety officer's pension as it was received and deducted up to the \$3,000 limit.

5: Is the gross income exclusion amount for medical, prescription or both?

Both. The exclusion covers all qualified health insurance premiums.

6: Does this gross income exclusion include or exclude co-pays and deductibles?

Co-pays and deductibles are excluded. The gross income exclusion only covers qualified health insurance premiums paid directly from a defined benefit pension plan on behalf of an eligible public safety officer.

7: Are premiums for long-term health care insurance included within this exclusion?

This gross income exclusion only applies to a distribution if the payment of premiums is made directly to the provider of the accident or health care plan or qualified long-term care insurance contract by deduction directly from a service or disability pension distribution from an eligible retirement plan. Long-term health care is currently not deducted from OP&F health care coverage.

8: Does the same exclusion apply to other state pensions?

No. The gross income exclusion is limited to \$3,000 per year, per eligible public safety officer only.

9: As a qualified public safety officer, am I eligible for additional \$3,000 exclusions for my spouse and for my dependents?

No. The gross income exclusion is limited to \$3,000 per year, per eligible public safety officer only.

10: When can safety officers start filing for this gross income exclusion?

For tax years beginning after Dec. 31, 2006, or for your 2007 tax return. As a result, this exclusion cannot be elected until filings due by Apr. 15, 2008.

11: What do I have to do and what information is needed to apply for the gross income exclusion?

To take advantage of the gross income exclusion, those eligible will need to claim the associated tax benefits on their individual tax return IRS Form 1040.

12: What form do I need to complete to apply for the gross income exclusion?

The IRS will determine what adjustments to Form 1040 and Form 1040 Instructions are needed to address this gross income exclusion and any reporting needs.

13: Will OP&F provide me with the total amount deducted for health care premiums via the annual Form 1099-R or my year-end benefit statement, or will a special letter or other documentation be provided to me?

Refer to your monthly benefit statement, under deductions for health care, prescriptions, dental and vision deductions. Then go to the year-to-date column for the annual tax year totals.

If a retired member starts with interim benefits, then their final retirement is calculated in the same tax year; their year- to-date totals will start over. You may need to add these statements together to get your annual total premiums deducted for reporting purposes.

14: Are on-duty and off-duty disability pensions eligible for this gross income exclusion?

Yes. OP&F members retired as service or disability are eligible.

15. Are health care premiums taxed or taxed deferred?

OP&F does not have an IRS Section 125 plan for retirees since these plans can currently only be offered to active employees. Health care premiums are deducted on an after-tax/taxed basis.

16: Am I eligible for the gross income exclusion if my OP&F benefits are non-taxable due to the private letter ruling?

The eligible public safety officer must take the deduction from income distributions made from your eligible retirement plan that are used to pay premiums. Please contact the IRS or refer to the 1040 Instructions at www.irs.gov for more information.

17: What is meant when the IRS refers to “no special reporting requirements” in the Form 1099-R Instructions for 2007?

It is the eligible public safety officer’s responsibility to take this gross income exclusion on IRS Form 1040 for their eligible portion. The IRS determined that a plan sponsor, like OP&F, is not required to report these amounts on the pension Form 1099-R.

18: Do I qualify for the gross income exclusion if I am on my spouses’ health care plan?

The gross income exclusion is only available if the plan is deducting and then remitting premiums directly to the insurance provider directly from the eligible public safety officer’s pension.

OP&F is providing this information to our membership as a service and does not intend to substitute any IRS interpretations, rules or eligibility requirements. Please contact the IRS or your tax preparer directly to verify your tax filing questions or with any questions or for additional information related to qualification of this gross income exclusion.

Previous versions obsolete.