

Proposed Regulation 54 – Administration of Retired Public Safety Officer Retirement Distribution for Health Insurance (To be effective January 1, 2007)

101. Purpose

The purpose of this regulation is to provide the administrative framework for implementing the special tax exclusion made available by Section 845 of the Pension Protection Act of 2006 to an “eligible retired public safety officer.”

102. Description of Tax Exclusion

Section 845 of the Pension Protection Act of 2006 amends IRC §402 to allow an “eligible retired public safety officer” to make an election to exclude from federal gross income up to \$3,000 of his or her retirement plan benefits if such amount is deducted from the retired member’s benefit and paid directly by PERS for health insurance or long term care insurance premiums. For this purpose, all eligible retirement plans must be treated as a single plan, i.e., a retiree gets only one \$3,000 exclusion per calendar year.

The income exclusion is only available if and to the extent PERS agrees to deduct and then remit qualifying premiums directly to the insurance provider. Statutory authority as found in Miss. Code Ann. §25-11-129, 25-13-31 and 21-29-307 allows a retired member receiving a retirement benefit to authorize PERS to make deductions from his or her retirement benefit for the payment of **employer or system sponsored group health insurance**, subject to the rules and regulations adopted by the Board. Consequently, this exclusion is only available to those Eligible Retired Public Safety Officers who have health insurance premiums deducted by PERS from their retirement or disability benefits.

103. Definition of Retired Public Safety Officer

“Retired public safety officer” means an individual who served and retired from public service by reason of disability or attainment of normal retirement age with a public agency in an official capacity as a law enforcement officer, as a firefighter, as a fire or police department chaplain, or as a member of a rescue squad or ambulance crew, as may be defined from time to time by the Internal Revenue Service (IRS).

For purposes of this regulation the term “law enforcement officer” means an individual involved in crime and juvenile delinquency control or reduction, or enforcement of the law, including, but not limited to police, corrections, probations, parole and judicial officers. The term “judicial officers” means an individual who is vested with the authority to decide causes or exercise powers appropriate to a court, i.e., a judge.

Retirees who retired from the following positions are eligible to make the election:

- Police officer (including a member of the Mississippi Highway Safety Patrol)
- Firefighter
- Chaplain of a police or fire department
- Sheriff

Deputy Sheriff
Constable
Regular Member of a rescue squad or ambulance crew
Narcotics Agent
Department of Wildlife, Fisheries & Parks Conservation Officer
Department of Wildlife, Fisheries & Parks Game Warden
Corrections Officer
Parole Officer
Department of Transportation Enforcement Officer
Department of Transportation Weight Enforcement Officer
Forestry Commission Forest Ranger
Gaming Commission Enforcement Agent
Public Service Commission Regulated Carrier Enforcement Officer
State Hospital Security Officer
University Security or Police Officer
Tax Commission ABC Enforcement Agent
Tax Commission Scale Enforcement Officer
Judge

Other retirees whose positions involved law enforcement activities may be eligible for the election. However, in making a determination of eligibility, PERS will review submitted documentation and employer certification of the nature of the position.

104. Eligible Retired Public Safety Officer

The election is only available to individuals who, by reason of disability or attainment of normal retirement age, retired from service as a public safety officer.

1. Attainment of Normal Retirement Age –

- a. PERS- For purposes of this regulation, and except as otherwise provided by the Internal Revenue Service, the “attainment of normal retirement age” under the Public Employees’ Retirement System shall be defined as 25 or more years of service credit or four (4) or more years of service credit at age 60 or later.
- b. MHSPRS - For purposes of this regulation, and except as otherwise provided by the Internal Revenue Service, the “attainment of normal retirement age” under the Mississippi Highway Safety Patrol Retirement System shall be defined as the age at which an eligible public safety officer retires on an unreduced benefit, i.e., someone who retired with 5 or more years of service at age 55 or older, or someone who retired with 25 or more years of service regardless of age . Any retired public safety officer whose retirement benefit was subject to an early retirement benefit reduction at the time of retirement is not eligible for this election, i.e., someone who retired with 20 or more but less than 25 years of service.

- c. MUNI - For purposes of this regulation, and except as otherwise provided by the Internal Revenue Service, all members who have retired or will retire under one of the Municipal Fire and Police Retirement Systems will be considered to have “attained normal retirement age.”

2. Disability retirement benefits eligible for the exclusion

A disability benefit recipient is eligible for the tax exclusion up to the allowable limit for premiums withheld to the extent that his or her disability retirement benefit is taxable. Duty-related disability benefits paid are already tax-exempt, and thus amounts withheld for health insurance premiums would not be subject to the tax-exclusion provisions of Section 845 of the Pension Protection Act of 2006. However, if any portion of an eligible disability retiree’s benefit is taxable, an election may be made to exclude amounts withheld for the payment of eligible insurance premiums to the extent such benefits would otherwise be taxable.

105. Premiums eligible for the exclusion

To be eligible for the tax exclusion, insurance premiums must be withheld from the retirement benefit of the Eligible Retired Public Safety Officer. Such premiums may be for the benefit of the retiree and his or her spouse and/or dependents. Only the Eligible Retired Public Safety Officer may elect to have the insurance premiums excluded from taxation.

106. Qualified health insurance plans

While federal law allows a governmental retirement plan to agree to deduct and then remit premiums directly to the provider of an accident or health insurance plan or qualified long-term care insurance contract, state law only allows PERS to make such premium deductions for **employer or system sponsored group health insurance** in accordance with PERS Board Regulation 52. Until such time as applicable laws are amended, an election may only be made with regard to such health insurance premiums.

107. Election

1. **When the election must be made** - An Eligible Retired Public Safety Officer may elect to have the tax exclusion apply in any taxable year to eligible premiums withheld from his or her retirement or disability retirement benefit and paid by the retirement plan directly to the insurance provider. To the extent allowed by law, the retiree may make such election prospectively for the current and future taxable years. Elections shall be effective the first of the month following receipt of the

election in the PERS office and shall remain in effect until revoked in writing by the Eligible Retired Public Safety Officer, or the death of the retiree.

- 2. Amount of Tax Exclusion-** An Eligible Retired Public Safety Officer is only permitted to have actual eligible insurance premiums excluded from taxation in an aggregate amount from all plans not to exceed \$3,000, even if he or she is receiving benefits from more than one retirement plan, e.g., a defined benefit plan such as PERS, MHSPRS or MUNI, and a IRC Section 457 (Mississippi Deferred Compensation Plan) or 403(b) plan.

108. Responsibility for Income Taxes

1. In administering the tax exemption, PERS is only responsible for performing the administrative functions associated with the deduction and payment of qualifying health insurance premiums. The retired member is and remains responsible for income tax liability for retirement benefits paid pursuant to the retirement plans administered by PERS. PERS has no responsibility for tax liability, including interest and penalties, that may arise from an Eligible Retired Public Safety Officer's participation in this tax exclusion.
2. The IRS has not provided guidance to date on the application of or administration of Section 845 of the Pension Protection Act. PERS is proceeding with implementation of the exclusion based on its understanding of the information currently available, with the anticipation that the administration of this provision may require revisions and adjustments as the provisions of the Pension Protection Act are interpreted and clarified. By making the election, the Eligible Retired Public Safety Officer acknowledges that changes may be required and that changes could affect the retired officer's eligibility for the exclusion. By making the election, the retired officer agrees that any benefit or privilege granted under this election is subject to change or revocation, and that PERS is not responsible for any consequence of any change in the availability of the exclusion, including unexpected tax liability, interest and penalties.

109. Effective Date

As the provisions of Section 845 of the Pension Protection Act of 2006 are effective for eligible distributions made in tax years beginning on or after January 1, 2007, and as the board of trustees determines that this regulation only confers a benefit to those retired public safety officers eligible for the tax exclusion, the effective date of this regulation shall be January 1, 2007.