

BULLETIN: How the Pension Protection Act Can Help Retired Public Safety Officers Pay for Long Term Care Insurance

genworth.com

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Effective: Immediately

States: All

The PPA can help your customers who are former Public Safety Officers afford Long Term Care Insurance premiums. Share this information with them today.

Contact: If you have any questions, please contact Advanced Sales at (800) 532.9116.

Section 845 of the PPA of 2006¹ provides that retired public safety officers can elect to have eligible retirement plan distributions pay qualified long term care insurance premiums² without having to include the distribution as taxable for federal income tax purposes.

Who is a public safety officer? A public safety officer is a paid or volunteer police officer, firefighter, rescue or ambulance squad member, or chaplain. It may also be someone who is performing official Federal Emergency Management Agency duties that are related to a major disaster or emergency and are deemed hazardous.

What are eligible retirement plans? An eligible retirement plan includes government-sponsored defined benefit and defined contribution plans³, tax-sheltered annuities (403(b)s), and 457(b) deferred compensation plans.

What premiums qualify? The law covers not only qualified long term care insurance premiums, but also health or accident insurance premiums. Premiums for the retired public safety officer, his or her spouse, and dependents for the tax year are covered. Premiums must be paid directly to the insurance company from the plan. The maximum amount the plan may pay – and the retired public safety officer may exclude from his or her gross income – is \$3,000.

How does this affect the tax treatment of personally paid long term care insurance premiums? The amount the plan pays should not be taken into account in determining either:

- The allowable personal deduction for medical expenses, which may include qualified long term care insurance premiums, or
- A self-employed person's adjustment to income of qualified long term care insurance premiums.

That is, only the amount by which qualified long term care insurance premiums exceed the amount paid by the plan can be included as a medical expense, and deducted if the taxpayer's itemized unreimbursed medical expenses exceed 7.5% of Adjusted Gross Income.

How does it work? The retired public safety officer must make an election with his or her plan administrator to have the plan pay the insurance company. This payment does not count toward any required minimum distributions. The plan may, but is not required to offer this election.

(continued)

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Example

Bill is a 62 year old widower. He was the county fire marshal for 30 years before hanging up his helmet. Bill lives on income from Social Security and retirement plan distributions, including those he takes from his retirement plan with the fire department.

Bill recently bought a Privileged Choice[®] Flex Individual Long Term Care Insurance policy with a \$4,000 annual premium. Bill does not itemize on his taxes and so cannot deduct any of the premium as an unreimbursed medical expense.

As a retired public safety officer though, Bill may be able to realize a tax savings. He contacted his plan administrator and elected to have his plan pay Genworth Life Insurance Company (and in New York, Genworth Life Insurance Company of New York) \$3,000 of his long term care insurance premium. He will pay the additional \$1,000 out of pocket. Bill can exclude this \$3,000 from federal income taxation, resulting in a tax savings of about \$750 at a 25% marginal rate.

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¹Pension Protection Act of 2006, Section 845

²IRC Sections 7702B(b) and 213(d). For more information about "qualified LTCL premiums," please also consult our "Tax Qualified Long Term Care Insurance" guide.

³IRC Sections 403(a) and 401(a)



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