



Federal Pension Protection Act of 2006 Frequently Asked Questions

The Pension Protection Act of 2006 (PPA) includes a number of provisions applicable to members of public pension plans. This article addresses the most frequently asked questions regarding the income tax exclusion for certain retiree health and long-term care insurance premiums. It is important to understand that the PPA is quite complex, and the information in this article reflects FPPA's understanding of the health care premium tax exclusion.

Q1 | What is the health care tax benefit under the PPA?

The PPA permits eligible retired public safety officers (PSO) to exclude funds paid directly from retirement plan distributions to cover the cost of certain health and long-term care insurance premiums from federal income tax. The maximum amount of the exclusion in any one year is the actual premiums paid or \$3,000, whichever is less.

Q2 | Who qualifies as a PSO under the PPA?

A PSO is defined as “an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, as a firefighter, as a chaplain, or as a Member of a rescue squad or ambulance crew.”

Q3 | What other eligibility requirements apply?

The PSO must have separated from service as a public safety officer because of a disability or reaching Normal Retirement Age. The individual’s benefit must be fully or partially taxable. In addition, FPPA requires that the Member’s monthly benefit is large enough to cover the full cost of the their monthly insurance premium.

Normal Retirement Age is the earliest age at which a plan Member has the right to retire without the consent of the employer and receive retirement benefits based on the amount of the Member’s service on the date of retirement at the full rate set forth in the plan (that is, without actuarial or similar reduction because of retirement before some later specified age).

For the Statewide Retirement Plan and the Colorado Springs New Hire Pension Plan: Fire Component, Normal Retirement Age is defined as age 55 or Rule of 80 eligibility.

For the Colorado Springs New Hire Pension Plan: Police Component, Normal Retirement Age is defined as age 50.

For other plans, including old hire pension plans, the “safe harbor” rule under federal regulations for Normal Retirement Age for public safety officers is generally as early as age 50 if no reduction in pension is made and the pension benefits begin upon separation from service. However, Members of old hire plans should consult local plan documents or the local pension board for a final determination in the event of a full pension retirement at a younger age. FPPA does not give advice on local pension matters.

Q4 | Which FPPA Members do not qualify for the benefit?

FPPA believes the following Members do not qualify: retired administrative support personnel; retirees receiving an Early Retirement benefit prior to reaching the plan’s Normal Retirement Age; Members taking a Vested Retirement who, at the time of separation of service, have not reached the plan’s Normal Retirement Age; and beneficiaries.

Q5 | Who ultimately determines eligibility for the PPA health care premium tax exclusion?

It is the responsibility of each individual claiming the exclusion to substantiate their PSO eligibility. This responsibility also applies in the event of an IRS audit.

Q6 | May I claim the \$3,000 tax exclusion for insurance premiums which I pay directly to the insurance carrier?

No, only premium payments withheld from a Member’s monthly pension benefit, and paid directly to the insurance carrier, will qualify under federal law.

Q7 | May I claim the \$3,000 tax exclusion if my FPPA benefit is entirely non-taxable?

No, since you do not have a taxable benefit, you may not claim a tax exclusion on your tax return.

Q8 | Which health insurance providers allow direct payment of retiree health insurance premiums from FPPA?

Aurora Fire & Police	<ul style="list-style-type: none"> • Kaiser DHMO, HDHP, HMO, Triple Option (Medicare and Under 65 group plans) • Colonial Non-Life Insurance • Delta Dental Plan • Vision Service Plan
Colorado Springs Fire & Police	<ul style="list-style-type: none"> • Cigna Health Network Premier or High Deductible Advantage (Under 65 group plans only) • Colonial Non-Life Insurance • Delta Dental Plan • Vision Service Plan (Department sponsored)
Denver Fire	<ul style="list-style-type: none"> • Kaiser HDHP, HMO, Triple Option, Out of Area or Senior Advantage Low or High Option (Medicare and Under 65 group plans) • Colonial Non-Life Insurance • Delta Dental PPO Plan • Humana Vision Plan
Denver Police	<ul style="list-style-type: none"> • Kaiser DHMO, HDHP or Senior Advantage (Medicare and Under 65 group plans) • United Healthcare CDP or HDHP (Under 65 group plans only) • United Healthcare Medicare Advantage (Medicare group plan only) • Colonial Non-Life Insurance • Delta Dental PPO Plan • Humana Vision Plan
Grand Junction	<ul style="list-style-type: none"> • Health Insurance Plan
Greeley Fire & Police	<ul style="list-style-type: none"> • Health Insurance Choice or HDHP (Under 65 group plans only) • Dental Insurance • Vision Service Plan
Pueblo Fire & Police	<ul style="list-style-type: none"> • Anthem HDHP Tier 1 and 2, HMO Tier 1 and 2, PPO (Under 65 group plans only) • Aetna Dental
City of Westminster	<ul style="list-style-type: none"> • Health Insurance Plan
All Retirees (FPPA sponsored programs)	<ul style="list-style-type: none"> • AARP Medicare Supplement Plans insured thru United Healthcare (Medicare Supplement plan only) • AARP Medicare RX Plans insured thru United Healthcare (Medicare Prescription Drug Plan) • Humana Medicare PPO Plan (Medicare only) • United Healthcare Medicare Advantage HMO (Medicare only) • Delta Dental PPO (FPPA Sponsored Plan only) • EyeMed Vision Plan (FPPA Sponsored Plan only) • Vision Service Plan (FPPA Sponsored Plan only)

Q9 | How do I claim the income tax exclusion for eligible health insurance premium payments?

Retired public safety officers should report their total pension distributions on line 5a of Form 1040. If the officer qualifies for the insurance premium exclusion, then up to \$3000 should be excluded from the taxable amount reported in line 5b of the Form 1040. Enter "PSO" next to line 5b if you are claiming the exclusion. Instructions are available in the 1040 Instructions for 2021, page 27. When using Form 1040NR, report the total pension distributions on line 5a and the taxable amount on line 5b, with the initials "PSO". NOTE: The amount shown in box 2a on Form 1099-R does not reflect the exclusion.

Q10 | If FPPA is already withholding and making health care insurance premium payments for me, and I meet the eligibility requirements, is there anything else I need to do in order to claim the exclusion?

The PPA requires that a Member "elect" to have amounts withheld from the Member's pension benefit in order to pay qualified health insurance premiums. FPPA believes the form already submitted by the Member to their employer or to FPPA, authorizing the withholding and payment of premiums from the Member's monthly benefit, constitutes a sufficient "election". The election, once made, remains in effect until you cancel it in writing. The election is continued when you renew your insurance and have it deducted from your pension benefit.

Q11 | Will FPPA let me know the amount of premium payments it has paid each year on my behalf?

FPPA provides an annual statement to Members. The statement is mailed by January 31 to police officers and firefighters that have PPA eligible insurance premiums deducted from their pension benefit. The amount shown in box 2a of Form 1099-R does not reflect the exclusion.

Q12 | The insurance payment that I make in December is for the coverage period of January next year - will that be included on my statement?

Yes, it will be included in the calculated amount of the eligible insurance premiums because it was paid for in the previous year.

This document is intended for general informational purposes only and is not intended for specific legal guidance to particular situations. The information provided herein is subject to change based upon official guidance, interpretations or determinations issued by the Department of Treasury or other federal agencies.

FPPA Fire & Police Pension Association of Colorado

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