

March 3, 2008

TO: All Retired Pension Plan Members

FROM: Phillip A. Parker, Major  
Human Resources Division

SUBJECT: Additional Information on the Pension Protection Act \$3,000 Exclusion

We are writing as a follow-up to prior correspondence you received from us regarding the income tax exclusion of up to \$3,000 of pension distributions used for health coverage premiums, as provided by federal law under the Pension Protection Act of 2006 ("PPA").

The Department desired to do everything necessary to implement this important income tax exclusion benefit. Based upon the federal law and IRS guidance that had been issued, the Department undertook a good-faith effort to determine those retirees who would be eligible to take advantage of this federal tax treatment, based upon its understanding that the Pension Plan would need to make this determination in order to comply with the Pension Plan's federal tax reporting obligations for Form 1099-R.

However, in more recent guidance the IRS took a different approach. On this most recent information from the IRS, the State Police Pension Plan is not required to determine whether an individual retiree is an "eligible retired public safety officer." Rather, the responsibility for determining whether or not an individual retiree qualifies to claim the deduction—and the consequences if such a deduction is erroneously claimed—rest with the individual retiree. In this regard, we thought it would be helpful to you in preparing your 2007 Form 1040 Income Tax Return to be aware of the following Internal Revenue Code ("Code") provisions. The Code provides in part as follows:

**Public safety officer.** The term "public safety officer" shall have the same meaning given such term by section 1204(9)(A) of the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. 3796b(9)(A)). That definition includes the following individuals serving a public agency in an official capacity:

- An individual involved in crime and juvenile delinquency control or reduction, or enforcement of the criminal laws (including juvenile delinquency), including, but not limited to police, corrections, probation, parole, and judicial officers.
- Professional firefighters.
- Officially recognized or designated public employee members of a rescue squad or ambulance crew; or chaplains of fire departments, and police departments.

**Eligible retired public safety officer.** The term “eligible retired public safety officer” means an individual who, by reason of disability or attainment of normal retirement age, is separated from service as a public safety officer with the employer who maintains the eligible retirement plan from which health insurance premiums are made.

**Qualified health insurance premiums.** The term “qualified health insurance premiums” means premiums for coverage for the eligible retired public safety officer, his spouse, and dependents, by an accident or health insurance plan or qualified long-term care insurance contract. To be eligible for the exclusion, the insurance premiums must be directly deducted from the retirement benefit.

**Who is an eligible retired public safety officer for purposes of the PPA exclusion?**

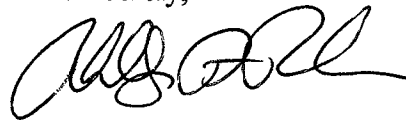
An employee is an eligible retired public safety officer for purposes of the exclusion only if the employee is an individual who separated from service, either by reason of disability or after attainment of normal retirement age, as a public safety officer with the employer who maintains the Eligible Government Plan from which the distributions to pay qualified health insurance premiums are made. Thus, a public safety officer who retires before attainment of normal retirement age is not an eligible retired public safety officer unless the public safety officer retires by reason of disability. The terms of the Eligible Government Plan from which the participant will be receiving the distributions apply in determining whether a public safety officer has separated from service by reason of disability or after attainment of normal retirement age.

**How do I take advantage of this PPA exclusion?**

The IRS requires that the retiree will be required to report the amount claimed as an exclusion on his or her Form 1040. The 2007 Instructions to the Form 1040 instruct the retiree to reflect the taxable amount received from the plan (after adjustment for qualified premiums deducted and paid directly by the plan, up to but not exceeding \$3,000) on line 16b of the Form 1040. Next to the entry, in the margin, the retiree must write the letters "PSO."

We hope that this information is helpful to you in preparing your 2007 Form 1040 with regard to this exclusion. If you have any questions, please contact me at 317-232-8350.

Sincerely,



Phillip A. Parker  
Major