

*United States  
Office of  
Personnel Management  
The Federal Government's Human Resources Agency*



*Benefits Administration Letter*

Number: 07-201

Date: June 20, 2007

**Subject:** Pre-tax treatment of FEHB and FLTCIP premiums for Retired Public Safety Officers under section 845 of the Pension Protection Act of 2006

A recently passed law, The Pension Protection Act of 2006 (PPA), now allows pre-tax payment of premiums for both the Federal Employees Health Benefits (FEHB) Program and the Federal Long Term Care Insurance Program (FLTCIP) for a small subset of Federal annuitants.

Although most Executive Branch Federal employees participating in the FEHB Program are eligible to have FEHB premiums withheld from pay prior to being taxed, under Internal Revenue rules, this pre-tax "premium conversion" benefit is generally not available to Federal annuitants.

Section 845 of the PPA added a provision to the Internal Revenue Code, effective January 1, 2007. New Internal Revenue Code section 402(l) allows a limited premium conversion tax advantage for certain annuitants who are retired public safety officers. They can now exclude from their gross income distributions from eligible retirement plans that are directly used to pay qualified health insurance premiums and/or long term care insurance premiums. The annual maximum exclusion is \$3,000.

The Office of Personnel Management (OPM) has determined that the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS) are eligible retirement plans under section 845 of the PPA. Retired public safety officers are deemed to have made a premium conversion election for this purpose. As a result, retired public safety officers whose CSRS or FERS annuity payments include a direct premium payment to a health insurance carrier or long term care insurance carrier may self-identify eligibility for, and self-report, the tax exclusion to the Internal Revenue Service. IRS Publication 721 *Tax Guide to U.S. Civil Service Retirement Benefits* at <http://www.irs.gov/pub/irs-pdf/p721.pdf> contains additional information on this tax advantage.

If you have any questions regarding this issue, please contact a representative at the individual's retirement information system.

Sincerely,

Robert F. Danbeck  
Associate Director  
for Human Resources Products and Services