Special provisions for Public Safety workers

Strategies that can help you save money

Nationwide® is on your side

If you're a public safety worker, you may be able to take advantage of two special provisions.

Two laws offer key opportunities

The Pension Protection Act of 2006 and the Defending Public Safety Employees' Retirement Act of 2015 offer distribution provisions specifically for the benefit of public safety workers. Over the following pages, we will discuss:

1. **An exemption to the additional 10% tax for early withdrawals** on distributions taken from a governmental defined benefit and/or defined contribution plan(s)[1] – *page 3*

2. **Tax-free distributions for qualified health insurance premiums** taken from a 457(b) deferred compensation plan account[1] – *page 5*

In general, a public safety worker is a local, state or federal governmental employee whose principal duties include law enforcement, customs and border protection, firefighting, emergency medical services or air traffic control.[1]

[1] "Public safety employee" and "public safety officer" are defined terms in these laws. Check with your primary retirement plan administrator for determination about specific qualification criteria for these provisions.

Exemption from the additional 10% tax for early withdrawal

Historically, public safety employees[2] prior to age 59½ were subject to an additional 10% tax on assets withdrawn from most tax-advantaged retirement plans. Governmental 457(b) plans were exempt unless the withdrawal came from assets previously rolled over from a non-457(b) plan.

The Pension Protection Act of 2006 included an exemption of the 10% additional tax for distributions from a governmental defined benefit (traditional pension) plan to retired public safety employees who separate from service in the calendar year they reach age 50 or later. The Defending Public Safety Employees' Retirement Act of 2015 permits governmental defined contribution plans to qualify for the exemption. Therefore, **public safety employees who separate from service in the calendar year they reach age 50 or later are now exempt from the 10% additional early withdrawal tax** when they take distributions of assets that had previously been rolled over from a non-457(b) plan (with the one exception being rollovers from IRAs).

In addition, the 2015 law clarifies that the 10% additional early withdrawal tax will not apply to participants who are receiving substantially equal periodic payments[4] and take another distribution. The later distribution will not be treated as a modification of the payments, which could have triggered the application of the 10% additional tax.

Considerations before taking withdrawals

Even if the distribution is not subject to the 10% additional early withdrawal tax, taxes can have a significant impact on a distribution, especially if that distribution is large enough to put you in a higher tax bracket.

Rolling over all or part of a distribution into a governmental 457(b) plan allows taxes to be deferred until assets and any earnings are withdrawn. This allows participants to control when they pay income taxes on their retirement assets as they continue enjoying the benefits of deferred compensation plan participation.

Each situation is unique.
Your Nationwide Retirement Specialist will gladly discuss your options through the governmental 457(b) deferred compensation plan. For investment, legal or tax advice, consult your own counsel before making retirement plan decisions.

[2] "Public safety employee" and "public safety officer" are defined terms in these laws. Check with your primary retirement plan administrator for determination about specific qualification criteria for these provisions.

[3] Distributions for individuals who retire during or after the calendar year they turn age 55 are not subject to the additional 10% early withdrawal tax.

[4] As permitted under Internal Revenue Code §72(t).

Considerations about retiree health care costs

As health care costs continue to rise, many retirees are paying more every year for their health care services.

Out-of-pocket health care costs for a 65-year-old couple could reach $259,000 – $395,000 over 20 years in retirement.[5] When you consider inflation, you can guess where that amount is heading.

While insurance and Medicare will help, you'll still have to pay a larger portion of your health care costs – including long-term care costs – yourself. Regularly increasing contributions to the deferred compensation plan may help you meet these costs in retirement.

[5] Savings needed for Medigap premiums, Medicare Part B premiums, Medicare Part D premiums and out-of-pocket drug expenses for retirement at age 65 in 2015, assuming a 90% chance of having enough savings: "Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Unlike the Last Few Years, the News is Not Good," by Paul Fronstin, Dallas Salisbury, and Jack VanDerhei, EBRI October 2015.

Tax savings on health insurance premiums

The Pension Protection Act allows retired or disabled public safety officers[6] to pay up to $3,000 a year in qualified health premiums with distributions from the deferred compensation plan and exclude this amount from federal income taxes.

To qualify for the tax-free exclusion, premiums must meet all of the following criteria:

- ✔ Health or long-term care insurance (this includes dental, vision and Medicare Part B)
- ✔ Provide coverage for you, your spouse or dependents[7]
- ✔ Distributions must be paid directly from retirement plan provider to the insurance provider

Premiums to self-insured plans are eligible. The policy must be issued by an insurance company that is regulated by the state. Coordination from your employer may be required.

[6] "Public safety employee" and "public safety officer" are defined terms in these laws. Check with your primary retirement plan administrator for determination about specific qualification criteria for these provisions.

[7] This exclusion from gross income does not apply to surviving spouses or dependents that use plan distributions to pay for their own health or long-term care premiums.

To learn more and access the proper forms:

- Talk with your local Nationwide Retirement Specialist
- Call 855-463-4977
- Visit nrsforu.com

Federal income tax laws are complex and subject to change. The information in this brochure is based on current interpretations of the law and is not guaranteed.

Nationwide Retirement Specialists are Registered Representatives of Nationwide Investment Services Corporation, member FINRA. Neither Nationwide nor its representatives offer investment, tax or legal advice. You should consult your own counsel before making retirement plan decisions.

Nationwide Retirement Solutions, Inc. and Nationwide Life Insurance Company (collectively "Nationwide") have endorsement relationships with the National Association of Counties, United States Conference of Mayors and the International Association of Fire Fighters-Financial Corporation. More information about the endorsement relationships may be found online at www.nrsforu.com.

NRM-12996AO.4 (07/17)

Nationwide®