Distributions Used To Pay Insurance Premiums for Public Safety Officers
If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you can elect to exclude from income distributions made from an eligible retirement plan that are used to pay the premiums for accident or health insurance or long-term care insurance. The premiums can be for coverage for you, your spouse, or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the smaller of the amount of the insurance premiums or $3,000. You can only make this election for amounts that would otherwise be included in your income. The amount excluded from your income can't be used to claim a medical expense deduction.

For this purpose, an eligible retirement plan is a governmental plan that is:

- A qualified trust,
- A section 403(a) plan,
- A section 403(b) annuity, or
- A section 457(b) plan.

The CSRS and FERS are considered eligible retirement plans.

How to report
If you make this election, reduce the otherwise taxable amount of your annuity by the amount excluded. The taxable annuity shown on Form CSA 1099-R doesn't reflect this exclusion. Report your total distributions on Form 1040, 1040-SR, or 1040-NR, line 5a. Report the taxable amount on Form 1040, 1040-SR, or 1040-NR, line 5b. Enter “PSO” next to the appropriate line on which you report the taxable amount. If you are retired on disability and reporting your disability pension on line 1 of Form 1040 or 1040-SR, or line 1a of Form 1040-NR, include only the taxable amount on that line, and enter “PSO” and the amount excluded on the dotted line next to the applicable line.

Retired Public Safety Officer Pension Exclusion

When the taxpayer is an eligible "retired public safety officer", defined by the IRS as a "law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew", they can elect to exclude up to $3,000 of the distributions they receive from an eligible retirement plan from their taxable income. To be eligible for this exclusion, the funds must be used to pay for accident or health insurance premiums or the premiums associated with a long-term care contract for the taxpayer, their spouse, or their dependents.

Important points:

- The taxpayer retired either because of a disability or they reached their normal retirement age.
- The retirement plan must be a governmental plan that is a qualified trust or a section 403(a), 403(b), or 457(b) plan.
- The distribution must be from a retirement plan maintained by the employer from which the taxpayer retired as a public safety officer and cannot be from some other retirement plan.
- The distribution must be made directly from the plan to the provider of the accident or health plan or long-term care insurance contract.
- The election can only be made for amounts that would otherwise be included in income.

The amount excluded from income is the smaller of the amount of the premiums or $3,000.

Additional Information

Publication 721, Tax Guide to U.S. Civil Service Retirement Benefits

Form 1040 Instructions