How the HELPS federal tax break offers relief for retired first responders

Retired firefighters, EMS providers and police officers may reduce their taxable earnings by up to $3,000 for medical insurance premiums paid during a calendar year

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It is recommended that pensioners consult with their tax preparer to properly claim the reduction.

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Many retired firefighters, EMS and police officers may not know that they can reduce their taxable earnings by up to $3,000 for medical insurance premiums paid during a calendar year. This is allowable under the Healthcare Enhancement for Local Public Safety (HELPS) Retirees Act.

Previously, there was a requirement that the premium had to be deducted from the retiree's pension check in order to qualify for HELPS deduction. That is no longer the case following the 2022 adoption of the Secure 2.0 retirement law. Premiums paid directly for health, accident or long-term care insurance now qualify for the tax benefit.

It is important to know that the $3,000 reduction does not appear on the annual 1099-R form that is sent out by a pension fund. The retiree must claim the reduction on their personal 1040 tax form on line 5B or similar adjustment. Instructions on claiming the reduction are included on page 6 in 2023 version of IRS Publication 575, with an update on page 2. (These page references may change in 2024 or future editions.)

As noted in the IRS publication, a retiree may not use this credit for income that is already excluded from taxation. So, if a retired firefighter gets their medical coverage through a new employer or their spouse's employer plan, that premium deduction is likely excluded from income – no HELPS reduction would be allowed. Likewise, if a retiree is self-employed and takes a Schedule C or similar deduction for medical coverage, again, they may not claim the HELPS credit.

Furthermore, married couples where both the parties are retired police/fire/EMS may take a reduction in income of up to $6,000. The HELPS tax break is only available to the retiree while he or she is alive. Persons who receive survivor pensions are not eligible.

Below is the section of IRS Publication 575 (2023 version) that discusses insurance premiums for retired public safety officers:

"The direct payment requirement for certain distributions for payment of health or long-term care insurance repealed. Distributions from governmental plans to an eligible retired public safety officer made after December 29, 2022, for health and long-term care insurance can be excluded from that employee's gross income. These distributions are excluded from gross income whether the premiums are paid directly to the provider of the accident or health plan or qualified long-term care insurance contract by deduction from a distribution from the eligible retirement plan or if the distributions are made to the employee. The amount which may be excluded from gross income for the tax year can't exceed the lesser of $3,000 or the amount paid for the insurance."

If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew) who is retired because of disability or because you reached normal retirement age, you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for coverage by an accident or health plan or a long-term care insurance contract. The premiums can be for coverage for you, your spouse or dependents.

The distribution must be from the plan maintained by the employer from which you retired as a public safety officer. The distribution can be made directly from the plan to the provider of the accident or health plan or long-term care insurance contract, or the distribution can be made to you to pay to the provider of the accident or health plan or long-term care insurance contract.

You can exclude from income the smaller of the amount of the insurance premiums or $3,000. You can make this election only 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.

An eligible retirement plan is a governmental plan that is a:

- Qualified trust
- Section 403(a) plan
- Section 403(b) annuity, or
- Section 457(b) plan

If you make this election, reduce the otherwise taxable amount of your pension or annuity by the amount excluded. The amount shown in box 2a of Form 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 Form 1040, 1040-SR or 1040-NR, line 1h, include only the taxable amount on that line and enter “PSO” plus the amount excluded on the dotted line next to the applicable line.

It is recommended that pensioners consult with their tax preparer to properly claim the reduction.