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New Legislation For Public Safety Employees

An important piece of legislation was signed on June 29th affecting public sector employees. As amended by the Defending Public Safety Employees' Retirement Act (H.R. 2146), the Internal Revenue Code now expands the definition of a qualified employee to include four other categories: law enforcement officers, federal firefighters, customs & border protection officers, and air traffic controllers. Starting this January, these employees will be able to retire as early as age 50 (or the year they turn 50) and withdraw money from their retirement plan without a 10% penalty. The new legislation also extends the type of retirement plan to include defined benefit plans (i.e.DROP), as well as defined contribution plans (TSP, 401k, 457 Rollovers, etc.) This law effectively puts federal employees on par with state and local employees who already benefit from similar legislation enacted in 2006. The H.R. 2146 Act is consistent with firefighters' tendency to retire sooner than those in other lines of work, given the unique and hazardous nature of the work they perform. This change will allow greater flexibility when sworn employees and other qualified workers decide to retire. As it stands now for example, a firefighter who rolls his DROP money to a 457 (deferred comp) plan forfeits the right to penalty-free distributions until age 59 1/2. The amended legislation corrects this inconvenience by offering an exemption. Effectively, the new custodian of the rollover money will segregate the balance and now permit penalty-free distributions due to this expanded legislation. Whether one decides to roll a DROP balance to an IRA or to a 457 plan is a unique decision and the new IRS rule will offer more flexibility when evaluating this decision.

Given the number of choices this legislation creates for firefighters, seeking outside guidance from a certified financial planner would be advisable.