

**Richard G. Thissen**  
*National President*



**Jon Dowie**  
*National Secretary/Treasurer*

July 17, 2017

The Honorable Orrin Hatch  
Chairman  
Senate Committee on Finance  
Washington, DC 20510

**DELIVERED BY EMAIL TO: TAXREFORM2017@FINANCE.SENATE.GOV**

Dear Chairman Hatch:

On behalf of the National Active and Retired Federal Employees Association (NARFE) and the 5 million federal employees and annuitants and their dependents and survivors we represent, we offer the following proposals as you work to craft tax reform legislation which promotes economic health and well-being and is guided by fairness and equity in the distribution of both the burden and benefits of the nation's tax code.

As responsible stewards of taxpayer dollars, NARFE members stand ready to work with you in achieving this monumental task and we wish you well in the endeavor. Should you have any questions regarding this submission, please contact NARFE Legislative Director Jessica Klement at [jklement@narfe.org](mailto:jklement@narfe.org).

Thank you for opening this process to the public, and for your consideration of NARFE's views.

Sincerely,

A handwritten signature in black ink that reads 'Richard Thissen'.

Richard Thissen  
National President

**National Active and Retired Federal Employees Association**

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### **Provide combat zone tax treatment parity**

NARFE supports the Combat Zone Tax Parity Act, H.R. 2929, introduced by Rep. Rob Wittman, which would amend the Internal Revenue Code to exclude from gross income, for income tax purposes, the compensation of a federal employee who is serving in a combat zone or was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone. The bill terminates the exclusion two years after the end of combatant activities in a combat zone.

The measure would extend the tax credit available to military personnel who serve in combat zones to the civilian federal employees working alongside them. Currently, members of the military qualify for federal income tax exemptions on their base pay as a result of serving in combat zones. Federal contractors also receive a similar tax exemption while serving in combat zones.

The legislation would compensate for the hardship federal employees and their families face from the separation and stress that accompany service in a combat zone. It also would provide a valuable incentive for civil servants to apply for overseas duty. U.S. missions require individuals with expertise often not found in the military to fill critical positions in such areas as transportation reconstruction projects and health care. Federal agencies often have difficulty staffing these posts. Providing an additional financial incentive to serve in combat zones should help alleviate that shortage.

### **Provide equitable treatment of federal pensions in the same manner as Social Security**

NARFE supports legislation to provide equitable tax treatment of federal retirement benefits comparable with Social Security.

Federal retirees covered by the Civil Service Retirement System (CSRS) did not earn credits toward Social Security in connection with their federal employment due to the fact that federal civil service employment was not covered by the Social Security Act until 1984. Consequently, those hired before 1984 who worked full careers in federal service would have only accrued the 40 quarters necessary to qualify for Social Security benefits if they held separate, private-sector employment. Even if they did accrue enough private-sector employment experience to qualify, they likely did not accrue the full 35 years of private-sector work on which Social Security benefits are based.

For these retirees, a portion of the CSRS annuity makes up for their reduced or nonexistent Social Security benefit. (The remaining portion is analogous to a private-sector pension). Yet no part of the CSRS annuity receives the favorable tax treatment that Social Security benefits receive.

No one pays federal income tax on more than 85 percent of his or her Social Security benefits based on IRS rules. If you:

- **file a federal tax return as an "individual"** and your *combined income\** is:

- between \$25,000 and \$34,000, you may have to pay income tax on up to 50 percent of your benefits.
- more than \$34,000, up to 85 percent of your benefits may be taxable.
- **file a joint return**, and you and your spouse have a *combined income*\* that is:
  - between \$32,000 and \$44,000, you may have to pay income tax on up to 50 percent of your benefits
  - more than \$44,000, up to 85 percent of your benefits may be taxable.

**\*Note:** Your adjusted gross income  
 + Nontaxable interest  
 + ½ of your Social Security benefits  
 = Your "***combined income***"<sup>1</sup>

NARFE proposes that 50 percent of the CSRS annuity – representing the portion that is analogous to a Social Security benefit – receive the same tax treatment as Social Security benefits, as detailed above.

### **Permit federal civil service annuitants to use pretax dollars to pay health insurance premiums**

NARFE supports amendment of section 125 of the Internal Revenue Code to include federal civil service annuitants.

Federal tax law (section 125 of the Internal Revenue Code) presently allows employers in the public and private sectors to permit their employees to pay for health insurance premiums with pretax dollars, wages excluded from both income and Social Security payroll taxes. *For example, if a federal employee's annual share of a Federal Employees Health Benefits Program (FEHBP) premium is \$1,700, then his/her adjusted gross income would be lowered by that amount for purposes of filing personal income taxes.* These "premium conversion plans" are available to most employees of large private-sector companies.

The Office of Personnel Management (OPM) began offering premium conversion plans to Executive Branch employees in October 2000 and Congress extended the tax benefit to Legislative Branch workers in January 2001. Premium conversion saves the average federal worker about \$434 a year.

Despite being part of the same program, federal annuitants were not included in the new premium conversion plan because the tax code is unclear on their eligibility to participate. These individuals shoulder the burden of increasingly high health insurance premiums. During the past eight years, federal annuitants have received a cost-of-living adjustment of a mere 1.3 to 3.5 percent, which has been eroded by double-digit increases in health insurance premiums.

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<sup>1</sup> "Benefits Planner: Income Taxes and Your Social Security Benefits," available at: <https://www.ssa.gov/planners/taxes.html>.

Many current federal employees will be surprised to learn that they will no longer receive the premium conversion benefit after they retire.

**Allow deductibility of long-term care insurance premiums**

NARFE supports the provision of an “above the line” deduction (exclusion from gross income) for long-term care insurance premiums to help alleviate the cost of long-term care insurance. This, in turn, relieves the burden on Medicaid. NARFE supports tax relief for the purchase of long-term care insurance, family caregiving and other long-term care expenses. Individuals who cannot afford long-term care insurance or have a need for long-term care should be able to receive such services without impoverishing themselves.