

AMENDMENT NO. \_\_\_\_\_ Calendar No. \_\_\_\_\_

Purpose: To reauthorize for 1 year the Secure Rural Schools and Community Self-Determination Act of 2000 and to provide full funding for the Payments in Lieu of Taxes program for 1 year, and for other purposes.

**IN THE SENATE OF THE UNITED STATES—112th Cong., 2d Sess.**

**S. 1813**

To reauthorize Federal-aid highway and highway safety construction programs, and for other purposes.

Referred to the Committee on \_\_\_\_\_ and  
ordered to be printed

Ordered to lie on the table and to be printed

AMENDMENT intended to be proposed by Mr. BAUCUS to  
the amendment (No. 1761) \_\_\_\_\_ pro-  
posed by Mr. REID

Viz:

1 At the end of division D, insert the following:

1     **TITLE IV—REAUTHORIZATION**  
2             **OF CERTAIN PROGRAMS**  
3     **Subtitle A—Secure Rural Schools**  
4             **and Community Self-determina-**  
5             **tion Program**

6     **SEC. 40401. SECURE RURAL SCHOOLS AND COMMUNITY**  
7             **SELF-DETERMINATION PROGRAM.**

8             (a) AMENDMENTS.—The Secure Rural Schools and  
9     Community Self-Determination Act of 2000 (16 U.S.C.  
10    7101 et seq.) is amended—

11             (1) in section 3(11)—

12                     (A) in subparagraph (A), by striking  
13             “and” after the semicolon at the end;

14                     (B) in subparagraph (B)—

15                             (i) by striking “fiscal year 2009 and  
16             each fiscal year thereafter” and inserting  
17             “each of fiscal years 2009 through 2011”;  
18             and

19                             (ii) by striking the period at the end  
20             and inserting “; and”; and

21                     (C) by adding at the end the following:

22                             “(C) for fiscal year 2012 and each fiscal  
23             year thereafter, the amount that is equal to 95  
24             percent of the full funding amount for the pre-  
25             ceding fiscal year.”;



1                   pear at the end of paragraph (1) of  
2                   subsection (d); and

3                                 (III) by inserting after subpara-  
4                   graph (A) the following:

5                                 “(B) FAILURE TO ELECT.—If the Gov-  
6                   ernor of an eligible State fails to notify the Sec-  
7                   retary concerned of the election for an eligible  
8                   county by the date specified in subparagraph  
9                   (A)—

10                                “(i) the eligible county shall be consid-  
11                                ered to have elected to expend 80 percent  
12                                of the funds in accordance with paragraph  
13                                (1)(A); and

14                                “(ii) the remainder shall be available  
15                                to the Secretary concerned to carry out  
16                                projects in the eligible county to further  
17                                the purpose described in section 202(b).”;

18                                (4) in section 103(d)(2), by striking “fiscal year  
19                   2011” and inserting “each of fiscal years 2011 and  
20                   2012”;

21                                (5) in section 202, by adding at the end the fol-  
22                   lowing:

23                                “(c) ADMINISTRATIVE EXPENSES.—A resource advi-  
24                   sory committee may, in accordance with section 203, pro-  
25                   pose to use not more than 10 percent of the project funds

1 of an eligible county for any fiscal year for administrative  
2 expenses associated with operating the resource advisory  
3 committee under this title.”;

4 (6) in section 204(e)(3)(B)(iii), by striking  
5 “and 2011” and inserting “through 2012”;

6 (7) in section 205(a)(4), by striking “2006”  
7 each place it appears and inserting “2011”;

8 (8) in section 208(b), by striking “2012” and  
9 inserting “2013”;

10 (9) in section 302(a)(2)(A), by inserting “and”  
11 after the semicolon; and

12 (10) in section 304(b), by striking “2012” and  
13 inserting “2013”.

14 (b) FAILURE TO MAKE ELECTION.—For each county  
15 that failed to make an election for fiscal year 2011 in ac-  
16 cordance with section 102(d)(3)(A) of the Secure Rural  
17 Schools and Community Self-Determination Act of 2000  
18 (16 U.S.C. 7112(d)(3)(A)), there shall be available to the  
19 Secretary of Agriculture to carry out projects to further  
20 the purpose described in section 202(b) of that Act (16  
21 U.S.C. 7122(b)), from amounts in the Treasury not other-  
22 wise appropriated, the amount that is equal to 15 percent  
23 of the total share of the State payment that otherwise  
24 would have been made to the county under that Act for  
25 fiscal year 2011.

1           **Subtitle B—Payment in Lieu of**  
2                           **Taxes Program**

3   **SEC. 40411. PAYMENTS IN LIEU OF TAXES.**

4           Section 6906 of title 31, United States Code, is  
5 amended by striking “2012” and inserting “2013”.

6                           **Subtitle C—Offsets**

7   **SEC. 40421. TAX REPORTING FOR LIFE SETTLEMENT**  
8                           **TRANSACTIONS.**

9           (a) IN GENERAL.—Subpart B of part III of sub-  
10 chapter A of chapter 61 of the Internal Revenue Code of  
11 1986 is amended by adding at the end the following new  
12 section:

13   **“SEC. 6050X. RETURNS RELATING TO CERTAIN LIFE INSUR-**  
14                           **ANCE CONTRACT TRANSACTIONS.**

15           “(a) REQUIREMENT OF REPORTING OF CERTAIN  
16 PAYMENTS.—

17                   “(1) IN GENERAL.—Every person who acquires  
18 a life insurance contract or any interest in a life in-  
19 surance contract in a reportable policy sale during  
20 any taxable year shall make a return for such tax-  
21 able year (at such time and in such manner as the  
22 Secretary shall prescribe) setting forth—

23                           “(A) the name, address, and TIN of such  
24 person,

1           “(B) the name, address, and TIN of each  
2 recipient of payment in the reportable policy  
3 sale,

4           “(C) the date of such sale,

5           “(D) the name of the issuer of the life in-  
6 surance contract sold and the policy number of  
7 such contract, and

8           “(E) the amount of each payment.

9           “(2) STATEMENT TO BE FURNISHED TO PER-  
10 SONS WITH RESPECT TO WHOM INFORMATION IS RE-  
11 QUIRED.—Every person required to make a return  
12 under this subsection shall furnish to each person  
13 whose name is required to be set forth in such re-  
14 turn a written statement showing—

15           “(A) the name, address, and phone num-  
16 ber of the information contact of the person re-  
17 quired to make such return, and

18           “(B) the information required to be shown  
19 on such return with respect to such person, ex-  
20 cept that in the case of an issuer of a life insur-  
21 ance contract, such statement is not required to  
22 include the information specified in paragraph  
23 (1)(E).

24           “(b) REQUIREMENT OF REPORTING OF SELLER’S  
25 BASIS IN LIFE INSURANCE CONTRACTS.—

1           “(1) IN GENERAL.—Upon receipt of the state-  
2           ment required under subsection (a)(2) or upon no-  
3           tice of a transfer of a life insurance contract to a  
4           foreign person, each issuer of a life insurance con-  
5           tract shall make a return (at such time and in such  
6           manner as the Secretary shall prescribe) setting  
7           forth—

8                   “(A) the name, address, and TIN of the  
9                   seller who transfers any interest in such con-  
10                  tract in such sale,

11                   “(B) the investment in the contract (as de-  
12                   fined in section 72(e)(6)) with respect to such  
13                   seller, and

14                   “(C) the policy number of such contract.

15           “(2) STATEMENT TO BE FURNISHED TO PER-  
16           SONS WITH RESPECT TO WHOM INFORMATION IS RE-  
17           QUIRED.—Every person required to make a return  
18           under this subsection shall furnish to each person  
19           whose name is required to be set forth in such re-  
20           turn a written statement showing—

21                   “(A) the name, address, and phone num-  
22                   ber of the information contact of the person re-  
23                   quired to make such return, and



1           “(B) the information required to be shown  
2           on such return with respect to each seller whose  
3           name is required to be set forth in such return.

4           “(c) REQUIREMENT OF REPORTING WITH RESPECT  
5 TO REPORTABLE DEATH BENEFITS.—

6           “(1) IN GENERAL.—Every person who makes a  
7           payment of reportable death benefits during any tax-  
8           able year shall make a return for such taxable year  
9           (at such time and in such manner as the Secretary  
10          shall prescribe) setting forth—

11           “(A) the name, address, and TIN of the  
12          person making such payment,

13           “(B) the name, address, and TIN of each  
14          recipient of such payment,

15           “(C) the date of each such payment, and

16           “(D) the amount of each such payment.

17           “(2) STATEMENT TO BE FURNISHED TO PER-  
18          SONS WITH RESPECT TO WHOM INFORMATION IS RE-  
19          QUIRED.—Every person required to make a return  
20          under this subsection shall furnish to each person  
21          whose name is required to be set forth in such re-  
22          turn a written statement showing—

23           “(A) the name, address, and phone num-  
24          ber of the information contact of the person re-  
25          quired to make such return, and

1           “(B) the information required to be shown  
2           on such return with respect to each recipient of  
3           payment whose name is required to be set forth  
4           in such return.

5           “(d) DEFINITIONS.—For purposes of this section:

6           “(1) PAYMENT.—The term ‘payment’ means  
7           the amount of cash and the fair market value of any  
8           consideration transferred in a reportable policy sale.

9           “(2) REPORTABLE POLICY SALE.—The term  
10          ‘reportable policy sale’ has the meaning given such  
11          term in section 101(a)(3)(B).

12          “(3) ISSUER.—The term ‘issuer’ means any life  
13          insurance company that bears the risk with respect  
14          to a life insurance contract on the date any return  
15          or statement is required to be made under this sec-  
16          tion.

17          “(4) REPORTABLE DEATH BENEFITS.—The  
18          term ‘reportable death benefits’ means amounts paid  
19          by reason of the death of the insured under a life  
20          insurance contract that has been transferred in a re-  
21          portable policy sale.”.

22          (b) CLERICAL AMENDMENT.—The table of sections  
23          for subpart B of part III of subchapter A of chapter 61  
24          of the Internal Revenue Code of 1986 is amended by in-

1   serting after the item relating to section 6050W the fol-  
2   lowing new item:

“Sec. 6050X. Returns relating to certain life insurance contract transactions.”.

3       (c) CONFORMING AMENDMENTS.—

4           (1) Subsection (d) of section 6724 of the Inter-  
5   nal Revenue Code of 1986 is amended—

6           (A) by striking “or” at the end of clause  
7           (xxiv) of paragraph (1)(B), by striking “and”  
8           at the end of clause (xxv) of such paragraph  
9           and inserting “or”, and by inserting after such  
10          clause (xxv) the following new clause:

11                  “(xxvi) section 6050X (relating to re-  
12                  turns relating to certain life insurance con-  
13                  tract transactions), and”, and

14           (B) by striking “or” at the end of subpara-  
15          graph (GG) of paragraph (2), by striking the  
16          period at the end of subparagraph (HH) of  
17          such paragraph and inserting “, or”, and by in-  
18          serting after such subparagraph (HH) the fol-  
19          lowing new subparagraph:

20                  “(II) subsection (a)(2), (b)(2), or (c)(2) of  
21                  section 6050X (relating to returns relating to  
22                  certain life insurance contract transactions).”.

23          (2) Section 6047 of such Code is amended—

24           (A) by redesignating subsection (g) as sub-  
25          section (h),

1 (B) by inserting after subsection (f) the  
2 following new subsection:

3 “(g) INFORMATION RELATING TO LIFE INSURANCE  
4 CONTRACT TRANSACTIONS.—This section shall not apply  
5 to any information which is required to be reported under  
6 section 6050X.”, and

7 (C) by adding at the end of subsection (h),  
8 as so redesignated, the following new para-  
9 graph:

10 “(4) For provisions requiring reporting of infor-  
11 mation relating to certain life insurance contract  
12 transactions, see section 6050X.”.

13 (d) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to—

15 (1) reportable policy sales after December 31,  
16 2012, and

17 (2) reportable death benefits paid after Decem-  
18 ber 31, 2012.

19 **SEC. 40422. CLARIFICATION OF TAX BASIS OF LIFE INSUR-**  
20 **ANCE CONTRACTS.**

21 (a) CLARIFICATION WITH RESPECT TO ADJUST-  
22 MENTS.—Paragraph (1) of section 1016(a) of the Internal  
23 Revenue Code of 1986 is amended by striking subpara-  
24 graph (A) and all that follows and inserting the following:

25 “(A) for—

1 “(i) taxes or other carrying charges  
2 described in section 266; or

3 “(ii) expenditures described in section  
4 173 (relating to circulation expenditures),  
5 for which deductions have been taken by the  
6 taxpayer in determining taxable income for the  
7 taxable year or prior taxable years; or

8 “(B) for mortality, expense, or other rea-  
9 sonable charges incurred under an annuity or  
10 life insurance contract;”.

11 (b) EFFECTIVE DATE.—The amendment made by  
12 this section shall apply to transactions entered into after  
13 August 25, 2009.

14 **SEC. 40423. EXCEPTION TO TRANSFER FOR VALUABLE CON-**  
15 **SIDERATION RULES.**

16 (a) IN GENERAL.—Subsection (a) of section 101 of  
17 the Internal Revenue Code of 1986 is amended by adding  
18 at the end the following new paragraph:

19 “(3) EXCEPTION TO VALUABLE CONSIDERATION  
20 RULES FOR COMMERCIAL TRANSFERS.—

21 “(A) IN GENERAL.—The second sentence  
22 of paragraph (2) shall not apply in the case of  
23 a transfer of a life insurance contract, or any  
24 interest therein, which is a reportable policy  
25 sale.

1           “(B) REPORTABLE POLICY SALE.—For  
2           purposes of this paragraph, the term ‘reportable  
3           policy sale’ means the acquisition of an interest  
4           in a life insurance contract, directly or indi-  
5           rectly, if the acquirer has no substantial family,  
6           business, or financial relationship with the in-  
7           sured apart from the acquirer’s interest in such  
8           life insurance contract. For purposes of the pre-  
9           ceding sentence, the term ‘indirectly’ applies to  
10          the acquisition of an interest in a partnership,  
11          trust, or other entity that holds an interest in  
12          the life insurance contract.”.

13          (b) CONFORMING AMENDMENT.—Paragraph (1) of  
14          section 101(a) of the Internal Revenue Code of 1986 is  
15          amended by striking “paragraph (2)” and inserting “para-  
16          graphs (2) and (3)”.

17          (c) EFFECTIVE DATE.—The amendments made by  
18          this section shall apply to transfers after December 31,  
19          2012.

20          **SEC. 40424. PHASED RETIREMENT AUTHORITY.**

21          (a) CSRS.—Chapter 83 of title 5, United States  
22          Code, is amended—

23                  (1) in section 8331—

24                          (A) in paragraph (30) by striking “and” at  
25                          the end;

1 (B) in paragraph (31) by striking the pe-  
2 riod at the end and inserting “; and”; and

3 (C) by adding at the end the following:

4 “(32) ‘Director’ means the Director of the Of-  
5 fice of Personnel Management.”;

6 (2) by inserting after section 8336 the fol-  
7 lowing:

8 **“§ 8336a. Phased retirement**

9 “(a) For the purposes of this section—

10 “(1) the term ‘composite retirement annuity’  
11 means the annuity computed when a phased retiree  
12 attains full retirement status;

13 “(2) the term ‘full retirement status’ means  
14 that a phased retiree has ceased employment and is  
15 entitled, upon application, to a composite retirement  
16 annuity;

17 “(3) the term ‘phased employment’ means the  
18 less-than-full-time employment of a phased retiree;

19 “(4) the term ‘phased retiree’ means a retire-  
20 ment-eligible employee who—

21 “(A) makes an election under subsection  
22 (b); and

23 “(B) has not entered full retirement sta-  
24 tus;

1           “(5) the term ‘phased retirement annuity’  
2 means the annuity payable under this section before  
3 full retirement;

4           “(6) the term ‘phased retirement percentage’  
5 means the percentage which, when added to the  
6 working percentage for a phased retiree, produces a  
7 sum of 100 percent;

8           “(7) the term ‘phased retirement period’ means  
9 the period beginning on the date on which an indi-  
10 vidual becomes entitled to receive a phased retire-  
11 ment annuity and ending on the date on which the  
12 individual dies or separates from phased employ-  
13 ment;

14           “(8) the term ‘phased retirement status’ means  
15 that a phased retiree is concurrently employed in  
16 phased employment and eligible to receive a phased  
17 retirement annuity;

18           “(9) the term ‘retirement-eligible employee’—

19           “(A) means an individual who, if the indi-  
20 vidual separated from the service, would meet  
21 the requirements for retirement under sub-  
22 section (a) or (b) of section 8336; and

23           “(B) does not include—

24           “(i) an individual who, if the indi-  
25 vidual separated from the service, would



1 meet the requirements for retirement  
2 under subsection (c), (e), (m), or (n) of  
3 section 8336; or

4 “(ii) a law enforcement officer, fire-  
5 fighter, nuclear materials courier, air traf-  
6 fic controller, customs and border protec-  
7 tion officer, or member of the Capitol Po-  
8 lice or Supreme Court Police; and

9 “(10) the term ‘working percentage’ means the  
10 percentage of full-time employment equal the  
11 quotient obtained by dividing—

12 “(A) the number of hours per pay period  
13 to be worked by a phased retiree as scheduled  
14 in accordance with subsection (b)(2); by

15 “(B) the number of hours per pay period  
16 to be worked by an employee serving in a com-  
17 parable position on a full-time basis.

18 “(b)(1) With the concurrence of the head of the em-  
19 ploying agency, and under regulations promulgated by the  
20 Director, a retirement-eligible employee who has been em-  
21 ployed on a full time basis for not less than the 3-year  
22 period ending on the date on which the retirement-eligible  
23 employee makes an election under this subsection may  
24 elect to enter phased retirement status.

1       “(2)(A) Subject to subparagraph (B), at the time of  
2 entering phased retirement status, a phased retiree shall  
3 be appointed to a position for which the working percent-  
4 age is 50 percent.

5       “(B) The Director may, by regulation, provide for  
6 working percentages different from the percentage speci-  
7 fied under subparagraph (A), which shall be not less than  
8 20 percent and not more than 80 percent.

9       “(C) The working percentage for a phased retiree  
10 may not be changed during the phased retiree’s phased  
11 retirement period.

12       “(D)(i) Not less than 20 percent of the hours to be  
13 worked by a phased retiree shall consist of mentoring.

14       “(ii) The Director may, by regulation, provide for ex-  
15 ceptions to the requirement under clause (i).

16       “(3) A phased retiree—

17               “(A) may not be employed in more than one po-  
18 sition at any time; and

19               “(B) may transfer to another position in the  
20 same or a different agency, if the transfer does not  
21 result in a change in the working percentage.

22       “(4) A retirement-eligible employee may make only  
23 one election under this subsection during the retirement-  
24 eligible employee’s lifetime.

1       “(5) A retirement-eligible employee who makes an  
2 election under this subsection may not make an election  
3 under section 8343a.

4       “(c)(1) Except as otherwise provided under this sub-  
5 section, the phased retirement annuity for a phased retiree  
6 is the product obtained by multiplying—

7               “(A) the amount of an annuity computed under  
8 section 8339 that would have been payable to the  
9 phased retiree if, on the date on which the phased  
10 retiree enters phased retirement status, the phased  
11 retiree had separated from service and retired under  
12 section 8336(a) or (b); by

13               “(B) the phased retirement percentage for the  
14 phased retiree.

15       “(2) A phased retirement annuity shall be paid in ad-  
16 dition to the basic pay for the position to which a phased  
17 retiree is appointed during phased employment.

18       “(3) A phased retirement annuity shall be adjusted  
19 in accordance with section 8340.

20       “(4)(A) A phased retirement annuity shall not be  
21 subject to reduction for any form of survivor annuity, shall  
22 not serve as the basis of the computation of any survivor  
23 annuity, and shall not be subject to any court order requir-  
24 ing a survivor annuity to be provided to any individual.

1           “(B) A phased retirement annuity shall be subject to  
2 a court order providing for division, allotment, assign-  
3 ment, execution, levy, attachment, garnishment, or other  
4 legal process on the same basis as other annuities.

5           “(5) Any reduction of a phased retirement annuity  
6 based on an election under section 8334(d)(2) shall be ap-  
7 plied to the phased retirement annuity after computation  
8 under paragraph (1).

9           “(6)(A) Any deposit, or election of an actuarial annu-  
10 ity reduction in lieu of a deposit, for military service or  
11 for creditable civilian service for which retirement deduc-  
12 tions were not made or refunded shall be made by a retire-  
13 ment-eligible employee at or before the time the retire-  
14 ment-eligible employee enters phased retirement status.  
15 No such deposit may be made, or actuarial adjustment  
16 in lieu thereof elected, at the time a phased retiree enters  
17 full retirement status.

18           “(B) Notwithstanding subparagraph (A), if a phased  
19 retiree does not make such a deposit and dies in service  
20 as a phased retiree, a survivor of the phased retiree shall  
21 have the same right to make such deposit as would have  
22 been available had the employee not entered phased retire-  
23 ment status and died in service.

24           “(C) If a phased retiree makes an election for an ac-  
25 tuarial annuity reduction under section 8334(d)(2) and

1 dies in service as a phased retiree, the amount of any de-  
2 posit upon which such actuarial reduction shall have been  
3 based shall be deemed to have been fully paid.

4 “(7) A phased retirement annuity shall commence on  
5 the date on which a phased retiree enters phased employ-  
6 ment.

7 “(8) No unused sick leave credit may be used in the  
8 computation of the phased retirement annuity.

9 “(d) All basic pay not in excess of the full-time rate  
10 of pay for the position to which a phased retiree is ap-  
11 pointed shall be deemed to be basic pay for purposes of  
12 section 8334.

13 “(e) Under such procedures as the Director may pre-  
14 scribe, a phased retiree may elect to enter full retirement  
15 status at any time. Upon making such an election, a  
16 phased retiree shall be entitled to a composite retirement  
17 annuity.

18 “(f)(1) Except as provided otherwise under this sub-  
19 section, a composite retirement annuity is a single annuity  
20 computed under regulations prescribed by the Director,  
21 equal to the sum of—

22 “(A) the amount of the phased retirement an-  
23 nuity as of the date of full retirement, before any re-  
24 duction based on an election under section

1 8334(d)(2), and including any adjustments made  
2 under section 8340; and

3 “(B) the product obtained by multiplying—

4 “(i) the amount of an annuity computed  
5 under section 8339 that would have been pay-  
6 able at the time of full retirement if the indi-  
7 vidual had not elected a phased retirement and  
8 as if the individual was employed on a full-time  
9 basis in the position occupied during the phased  
10 retirement period and before any reduction for  
11 survivor annuity or reduction based on an elec-  
12 tion under section 8334(d)(2); by

13 “(ii) the working percentage.

14 “(2) After computing a composite retirement annuity  
15 under paragraph (1), the Director shall adjust the amount  
16 of the annuity for any applicable reductions for a survivor  
17 annuity and any previously elected actuarial reduction  
18 under section 8334(d)(2).

19 “(3) A composite retirement annuity shall be ad-  
20 justed in accordance with section 8340, except that sub-  
21 section (c)(1) of that section shall not apply.

22 “(4) In computing a composite retirement annuity  
23 under paragraph (1)(B)(i), the unused sick leave to the  
24 credit of a phased retiree at the time of entry into full

1 retirement status shall be adjusted by dividing the number  
2 of hours of unused sick leave by the working percentage.

3 “(g)(1) Under such procedures and conditions as the  
4 Director may provide, and with the concurrence of the  
5 head of the employing agency, a phased retiree may elect  
6 to terminate phased retirement status and return to a full-  
7 time work schedule.

8 “(2) Upon entering a full-time work schedule based  
9 upon an election under paragraph (1), the phased retire-  
10 ment annuity of a phased retiree shall terminate.

11 “(3) After the termination of a phased retirement an-  
12 nuity under this subsection, the individual’s rights under  
13 this subchapter shall be determined based on the law in  
14 effect at the time of any subsequent separation from serv-  
15 ice. For purposes of this subchapter or chapter 84, at time  
16 of the subsequent separation from service, the phased re-  
17 tirement period shall be treated as if it had been a period  
18 of part-time employment with the work schedule described  
19 in subsection (b)(2).

20 “(h) For purposes of section 8341—

21 “(1) the death of a phased retiree shall be  
22 deemed to be the death in service of an employee;  
23 and

24 “(2) the phased retirement period shall be  
25 deemed to have been a period of part-time employ-

1           ment with the work schedule described in subsection  
2           (b)(2).

3           “(i) Employment of a phased retiree shall not be  
4           deemed to be part-time career employment, as defined in  
5           section 3401(2).

6           “(j) A phased retiree is not eligible to apply for an  
7           annuity under section 8337.

8           “(k) For purposes of section 8341(h)(4), retirement  
9           shall be deemed to occur on the date on which a phased  
10          retiree enters into full retirement status.

11          “(l) For purposes of sections 8343 and 8351, and  
12          subchapter III of chapter 84, a phased retiree shall be  
13          deemed to be an employee.

14          “(m) A phased retiree is not subject to section 8344.

15          “(n) For purposes of chapter 87, a phased retiree  
16          shall be deemed to be receiving basic pay at the rate of  
17          a full-time employee in the position to which the phased  
18          retiree is appointed.”; and

19                 (3) in the table of sections by inserting after  
20          the item relating to section 8336 the following:

                  “8336a. Phased retirement.”.

21          (b) **FERS.**—Chapter 84 of title 5, United States  
22          Code, is amended—

23                 (1) by inserting after section 8412 the following  
24          new section:



1 **“§ 8412a. Phased retirement**

2 “(a) For the purposes of this section—

3 “(1) the term ‘composite retirement annuity’  
4 means the annuity computed when a phased retiree  
5 attains full retirement status;

6 “(2) the term ‘full retirement status’ means  
7 that a phased retiree has ceased employment and is  
8 entitled, upon application, to a composite retirement  
9 annuity;

10 “(3) the term ‘phased employment’ means the  
11 less-than-full-time employment of a phased retiree;

12 “(4) the term ‘phased retiree’ means a retire-  
13 ment-eligible employee who—

14 “(A) makes an election under subsection  
15 (b); and

16 “(B) has not entered full retirement sta-  
17 tus;

18 “(5) the term ‘phased retirement annuity’  
19 means the annuity payable under this section before  
20 full retirement;

21 “(6) the term ‘phased retirement percentage’  
22 means the percentage which, when added to the  
23 working percentage for a phased retiree, produces a  
24 sum of 100 percent;

25 “(7) the term ‘phased retirement period’ means  
26 the period beginning on the date on which an indi-

1       vidual becomes entitled to receive a phased retire-  
2       ment annuity and ending on the date on which the  
3       individual dies or separates from phased employ-  
4       ment;

5               “(8) the term ‘phased retirement status’ means  
6       that a phased retiree is concurrently employed in  
7       phased employment and eligible to receive a phased  
8       retirement annuity;

9               “(9) the term ‘retirement-eligible employee’—

10               “(A) means an individual who, if the indi-  
11       vidual separated from the service, would meet  
12       the requirements for retirement under sub-  
13       section (a) or (b) of section 8412; and

14               “(B) does not include—

15               “(i) an individual who, if the indi-  
16       vidual separated from the service, would  
17       meet the requirements for retirement  
18       under subsection (d) or (e) of section  
19       8412; or

20               “(ii) a law enforcement officer, fire-  
21       fighter, nuclear materials courier, air traf-  
22       fic controller, customs and border protec-  
23       tion officer, or member of the Capitol Po-  
24       lice or Supreme Court Police; and

1           “(10) the term ‘working percentage’ means the  
2           percentage of full-time employment equal to the  
3           quotient obtained by dividing—

4                   “(A) the number of hours per pay period  
5                   to be worked by a phased retiree as scheduled  
6                   in accordance with subsection (b)(2); by

7                   “(B) the number of hours per pay period  
8                   to be worked by an employee serving in a com-  
9                   parable position on a full-time basis.

10          “(b)(1) With the concurrence of the head of the em-  
11          ploying agency, and under regulations promulgated by the  
12          Director, a retirement-eligible employee who has been em-  
13          ployed on a full time basis for not less than the 3-year  
14          period ending on the date on which the retirement-eligible  
15          employee makes an election under this subsection may  
16          elect to enter phased retirement status.

17          “(2)(A) Subject to subparagraph (B), at the time of  
18          entering phased retirement status, a phased retiree shall  
19          be appointed to a position for which the working percent-  
20          age is 50 percent.

21          “(B) The Director may, by regulation, provide for  
22          working percentages different from the percentage speci-  
23          fied under subparagraph (A), which shall be not less than  
24          20 percent and not more than 80 percent.

1       “(C) The working percentage for a phased retiree  
2 may not be changed during the phased retiree’s phased  
3 retirement period.

4       “(D)(i) Not less than 20 percent of the hours to be  
5 worked by a phased retiree shall consist of mentoring.

6       “(ii) The Director may, by regulation, provide for ex-  
7 ceptions to the requirement under clause (i).

8       “(3) A phased retiree—

9               “(A) may not be employed in more than one po-  
10 sition at any time; and

11               “(B) may transfer to another position in the  
12 same or a different agency, if the transfer does not  
13 result in a change in the working percentage.

14       “(4) A retirement-eligible employee may make only  
15 one election under this subsection during the retirement-  
16 eligible employee’s lifetime.

17       “(5) A retirement-eligible employee who makes an  
18 election under this subsection may not make an election  
19 under section 8420a.

20       “(c)(1) Except as otherwise provided under this sub-  
21 section, the phased retirement annuity for a phased retiree  
22 is the product obtained by multiplying—

23               “(A) the amount of an annuity computed under  
24 section 8415 that would have been payable to the  
25 phased retiree if, on the date on which the phased

1 retiree enters phased retirement status, the phased  
2 retiree had separated from service and retired under  
3 section 8412 (a) or (b); by

4 “(B) the phased retirement percentage for the  
5 phased retiree.

6 “(2) A phased retirement annuity shall be paid in ad-  
7 dition to the basic pay for the position to which a phased  
8 retiree is appointed during the phased employment.

9 “(3) A phased retirement annuity shall be adjusted  
10 in accordance with section 8462.

11 “(4)(A) A phased retirement annuity shall not be  
12 subject to reduction for any form of survivor annuity, shall  
13 not serve as the basis of the computation of any survivor  
14 annuity, and shall not be subject to any court order requir-  
15 ing a survivor annuity to be provided to any individual.

16 “(B) A phased retirement annuity shall be subject to  
17 a court order providing for division, allotment, assign-  
18 ment, execution, levy, attachment, garnishment, or other  
19 legal process on the same basis as other annuities.

20 “(5)(A) Any deposit, or election of an actuarial annu-  
21 ity reduction in lieu of a deposit, for military service or  
22 for creditable civilian service for which retirement deduc-  
23 tions were not made or refunded, shall be made by a re-  
24 tirement-eligible employee at or before the time the retire-  
25 ment-eligible employee enters phased retirement status.

1 No such deposit may be made, or actuarial adjustment  
2 in lieu thereof elected, at the time a phased retiree enters  
3 full retirement status.

4 “(B) Notwithstanding subparagraph (A), if a phased  
5 retiree does not make such a deposit and dies in service  
6 as a phased retiree, a survivor of the phased retiree shall  
7 have the same right to make such deposit as would have  
8 been available had the employee not entered phased retire-  
9 ment status and died in service.

10 “(6) A phased retirement annuity shall commence on  
11 the date on which a phased retiree enters phased employ-  
12 ment.

13 “(7) No unused sick leave credit may be used in the  
14 computation of the phased retirement annuity.

15 “(d) All basic pay not in excess of the full-time rate  
16 of pay for the position to which a phased retiree is ap-  
17 pointed shall be deemed to be basic pay for purposes of  
18 section 8422 and 8423.

19 “(e) Under such procedures as the Director may pre-  
20 scribe, a phased retiree may elect to enter full retirement  
21 status at any time. Upon making such an election, a  
22 phased retiree shall be entitled to a composite retirement  
23 annuity.

24 “(f)(1) Except as provided otherwise under this sub-  
25 section, a composite retirement annuity is a single annuity

1 computed under regulations prescribed by the Director,  
2 equal to the sum of—

3 “(A) the amount of the phased retirement an-  
4 nuity as of the date of full retirement, including any  
5 adjustments made under section 8462; and

6 “(B) the product obtained by multiplying—

7 “(i) the amount of an annuity computed  
8 under section 8412 that would have been pay-  
9 able at the time of full retirement if the indi-  
10 vidual had not elected a phased retirement and  
11 as if the individual was employed on a full-time  
12 basis in the position occupied during the phased  
13 retirement period and before any adjustment to  
14 provide for a survivor annuity; by

15 “(ii) the working percentage;

16 “(2) After computing a composite retirement annuity  
17 under paragraph (1), the Director shall adjust the amount  
18 of the annuity for any applicable reductions for a survivor  
19 annuity.

20 “(3) A composite retirement annuity shall be ad-  
21 justed in accordance with section 8462, except that sub-  
22 section (c)(1) of that section shall not apply.

23 “(4) In computing a composite retirement annuity  
24 under paragraph (1)(B)(i), the unused sick leave to the  
25 credit of a phased retiree at the time of entry into full

1 retirement status shall be adjusted by dividing the number  
2 of hours of unused sick leave by the working percentage.

3 “(g)(1) Under such procedures and conditions as the  
4 Director may provide, and with the concurrence of the  
5 head of employing agency, a phased retiree may elect to  
6 terminate phased retirement status and return to a full-  
7 time work schedule.

8 “(2) Upon entering a full-time work schedule based  
9 on an election under paragraph (1), the phased retirement  
10 annuity of a phased retiree shall terminate.

11 “(3) After termination of the phased retirement an-  
12 nuity under this subsection, the individual’s rights under  
13 this chapter shall be determined based on the law in effect  
14 at the time of any subsequent separation from service. For  
15 purposes of this chapter, at the time of the subsequent  
16 separation from service, the phased retirement period shall  
17 be treated as if it had been a period of part-time employ-  
18 ment with the work schedule described in subsection  
19 (b)(2).

20 “(h) For purposes of subchapter IV—

21 “(1) the death of a phased retiree shall be  
22 deemed to be the death in service of an employee;

23 “(2) except for purposes of section  
24 8442(b)(1)(A)(i), the phased retirement period shall  
25 be deemed to have been a period of part-time em-



1       employment with the work schedule described in sub-  
2       section (b)(2) of this section; and

3               “(3) for purposes of section 8442(b)(1)(A)(i),  
4       the phased retiree shall be deemed to have been at  
5       the full-time rate of pay for the position occupied.

6       “(i) Employment of a phased retiree shall not be  
7       deemed to be part-time career employment, as defined in  
8       section 3401(2).

9       “(j) A phased retiree is not eligible to receive an an-  
10      nuity supplement under section 8421.

11      “(k) For purposes of subchapter III, a phased retiree  
12      shall be deemed to be an employee.

13      “(l) For purposes of section 8445(d), retirement shall  
14      be deemed to occur on the date on which a phased retiree  
15      enters into full retirement status.

16      “(m) A phased retiree is not eligible to apply for an  
17      annuity under subchapter V.

18      “(n) A phased retiree is not subject to section 8468.

19      “(o) For purposes of chapter 87, a phased retiree  
20      shall be deemed to be receiving basic pay at the rate of  
21      a full-time employee in the position to which the phased  
22      retiree is appointed.”; and

23               (2) in the table of sections by inserting after  
24      the item relating to section 8412 the following:

“8412a. Phased retirement.”.

1           (c) **EFFECTIVE DATE.**—The amendments made by  
2 this section shall take effect on the effective date of the  
3 implementing regulations issued by the Director of the Of-  
4 fice of Personnel Management.

5 **SEC. 40425. ROLL-YOUR-OWN CIGARETTE MACHINES.**

6           (a) **IN GENERAL.**—Subsection (d) of section 5702 of  
7 the Internal Revenue Code of 1986 is amended by adding  
8 at the end the following new flush sentence:

9 “Such term shall include any person who for commercial  
10 purposes makes available for consumer use (including  
11 such consumer’s personal consumption or use under para-  
12 graph (1)) a machine capable of making cigarettes, cigars,  
13 or other tobacco products. A person making such a ma-  
14 chine available for consumer use shall be deemed the per-  
15 son making the removal as defined by subsection (j) with  
16 respect to any tobacco products manufactured by such ma-  
17 chine.”.

18           (b) **EFFECTIVE DATE.**—The amendment made by  
19 this section shall apply to articles removed after the date  
20 of the enactment of this Act.