

Good News!

More money on payday. If you have Federal Employees Health Benefits premiums withheld from your pay, then a new program from the Office of Personnel Management will increase your paycheck beginning in October.

You may have heard of “premium conversion.” It is a “pre-tax” arrangement, meaning that the part of your salary that goes for health insurance premiums will become non-taxable. This means that you save on Federal income tax and FICA taxes (Social Security and Medicare taxes). In most cases, you’ll also save on State income tax and local income tax.

How much? You save a percentage of your premium. If your annual premium is \$1800, and you pay 35% in taxes on that amount of salary, you save 35% of \$1800. That’s \$630, or \$24.23 every two weeks.

Do I have to pay a tax later? No. Don’t confuse premium conversion with the deferred taxation of Thrift Savings Plan contributions, which are taxed when you receive the money.

How do I sign up? The payroll office will make the switch automatically. You don’t need to fill out a form. You do have a choice, though, to waive premium conversion despite the savings. It’s a personal decision.

Why would I not want the tax savings? It’s possible but extremely unlikely. The potential reasons fall under two headings: Flexibility and Social Security.

Flexibility: An employee participating in premium conversion generally has all the same flexibility as a person who chooses not to participate. Because of the tax laws, there are two exceptions. If you waive premium conversion you will have the flexibility, *without giving any reason whatsoever*, either to drop your health insurance altogether or change from a self and family enrollment to self only. If you are participating in premium conversion, you will be allowed to drop coverage, or change to self only, only if your decision to do so comes at the time of a “qualifying life event,” such as when you get married or your husband gets a job that covers you under his health insurance. This flexibility is generally of little or no value compared to the tax savings of premium conversion.

Social Security. If you pay Social Security taxes on your salary, then premium conversion may result in somewhat lower Social Security benefits. In rare situations, it may be advantageous to pay full Social Security taxes rather than the lower Social Security taxes you pay under premium conversion. These unusual cases do not involve employees covered by the old Civil Service Retirement System (CSRS) or the CSRS-Offset plan. If you are covered by the Federal Employees Retirement System (FERS) and you pay no Federal income tax, you may wish to investigate further.

In any case, this is a decision only you can make.

Where can I get more information? Additional information is available on line at www.opm.gov, or you may call the Human Resource Office at _____.