



***Retirement and Insurance Service  
 Benefits Administration Letter***

Number: 02-311

Date: May 15, 2002

**Subject:** CSRS Withholdings for Offset Employees who Participate in HB-PC

We have received inquiries from agency payroll officials regarding retirement withholdings for employees covered by CSRS-offset ("offset") who also participate in Health Benefits Premium Conversion (HB-PC). This letter provides guidance for the relatively rare scenario where employees' pre-tax FEHB deductions exceed their basic pay in a pay period.

*Assume that Mark Marks is a "regular" offset employee, who participates in HB-PC. Mr. Marks' total OASDI taxable wages have not yet reached the social security wage base.*

*Mr. Marks reported to work on Monday and worked 8 regular hours plus 6 hours of overtime. Mr. Marks then took sick leave which was converted to leave without pay for the remainder of the two-week pay period. Mr. Marks' hourly rate of pay is \$14 and his overtime rate of pay is \$21 per hour. For this pay period, Mr. Marks was paid:*

|                               |              |
|-------------------------------|--------------|
| <i>Basic pay</i>              | <i>\$112</i> |
| <i>Overtime pay</i>           | <i>\$126</i> |
| <i>Pre-tax FEHB deduction</i> | <i>\$200</i> |

*As you can see, Mr. Marks' pre-tax FEHB deduction has exceeded his basic pay for this pay period.*

In Benefits Administration Letter No. 02-304, we established a rule that agencies must deduct at the "full" CSRS withholding rate on the amount of basic pay used to pay the pre-tax FEHB deduction. This rule also applies when employees' pre-tax FEHB deduction exceed their basic pay. Thus, when basic pay is less than the pre-tax FEHB premium deduction, agencies must withhold at the "full" CSRS withholding rate on the *entire* amount of basic pay.

*Mr. Marks' basic pay [\$112] is less than his pre-tax FEHB premium deduction [\$220]. Thus, his agency must deduct at the full CSRS withholding rate [7.0 percent] on Mr. Marks' entire basic pay for the pay period, as follows:*

$$\text{CSRS withholdings:} \quad \$112 \times 7.0\% = \$7.84$$

In pay periods where employees' basic pay do not cover their FEHB premium deductions, any "non-basic pay" must be applied to the "shortfall." The amount of "non-basic pay" applied to the pre-tax FEHB premium deduction is not subject to CSRS deductions because it is not basic pay. It is also not subject to OASDI withholdings because it is covered by the pre-tax FEHB premium deduction.

*\$112 of Mr. Marks' \$200 pre-tax FEHB premium deduction is drawn from his basic pay. The remaining \$88 [\$200 - \$112] is drawn from his overtime pay. This \$88 is not subject to CSRS deductions because it is not basic pay. It is also not subject to OASDI withholdings because it is covered by Mr. Marks' pre-tax FEHB premium deductions.*

The amount of wages that IS subject to OASDI withholdings is the difference between the total amount of "wages" paid in the pay period less the pre-tax FEHB premium deduction.

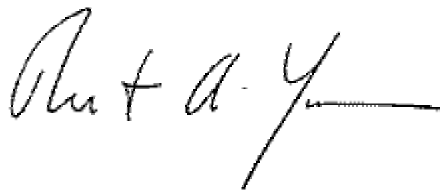
*Mr. Marks' wages subject to OASDI withholdings is computed, as follows:*

|                                     |              |
|-------------------------------------|--------------|
| <i>Basic pay</i>                    | <i>\$112</i> |
| <i>Overtime pay</i>                 | <i>126</i>   |
| <i>Total "wages"</i>                | <i>238</i>   |
| <i>Less: pre-tax FEHB deduction</i> | <i>200</i>   |
| <i>Subject to OASDI</i>             | <i>38</i>    |

*Thus, Mr. Marks' agency must deduct OASDI withholdings on \$38, as follows:*

$$\text{OASDI withholdings:} \quad \$38 \times 6.2\% = \$2.36$$

If you have any questions regarding this information, we would prefer that you email us at [finance@opm.gov](mailto:finance@opm.gov), so we have a record of our communication. You may also phone us on (202) 606-0606.



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