

*Everything You Wanted to Know About
FEHB Premium Conversion...and Weren't Afraid to Ask!*

TABLE OF CONTENTS

1. ALLOTMENTS
2. ADMINISTRATIVE ERRORS
3. CHOICES UNDER PREMIUM CONVERSION
4. EFFECTIVE DATE
5. ELIGIBILITY
6. ENROLLMENT
7. FEDERAL BENEFITS
8. FEDFLEX
9. FEHB ENROLLMENT
10. FLEXIBLE SPENDING ACCOUNTS
11. LWOP
12. OPEN SEASON
13. PARTICIPATION (See Eligibility and Enrollment)
14. QUALIFYING LIFE EVENTS (QLE)
15. REEMPLOYED ANNUITANTS
16. RETIREMENT
17. SEPARATION FROM SERVICE
18. SOCIAL SECURITY and PRE-TAX FEHB PREMIUMS
19. TAXES, TAXES, TAXES
20. TEMPORARY CONTINUATION OF COVERAGE (TCC)
21. WAIVERS

ALLOTMENTS

How much money will be allotted back to my agency? Only the amount of your FEHB contribution will be allotted back to your agency. If your FEHB contribution changes, the allotment will change.

What is the difference in order of precedence for deductions from pay between those who participate in premium conversion and those who opt-out? Currently, most (if not all) agencies deduct FEHB premiums immediately after FICA and Federal income taxes. Effective with the implementation of premium conversion, however, the FEHB premiums deducted from the pay of a participating employee will be made BEFORE FICA and Federal income taxes. When an employee waives participation in premium conversion, FEHB premiums will continue to be deducted from the pay after FICA and Federal income taxes. In all cases, deductions for CSRS or FERS will continue to be made first.

ADMINISTRATIVE ERRORS

Administrative errors may occur in the processing of your election to participate or waive participation in premium conversion. However, if you participate in premium conversion IRS rules rather than FEHB rules apply. IRS rules allow for NO adjustments to taxable income as a result of the correction of such errors, and NO retroactive adjustments, even when it's clear that you are not at fault. In processing a correction, the actual amount of FEHB premiums deducted from your pay will be afforded pre-tax treatment.

Examples

Susan L. has \$100 per pay period deducted from her salary for her contribution towards FEHB coverage.

Ms. L's employing agency mistakenly deducts \$150 during the last pay period prior to the effective date of her participation in premium conversion. To correct the error, the agency deducts \$50 for FEHB from Ms. Lee's pay in the following pay period, during which she has begun participating in premium conversion. Except for agency error, \$100 would have been deducted from her pay. However, only \$50 is treated on a pre-tax basis.

Ms. L's employing agency mistakenly makes no FEHB deduction during the last pay period prior to the effective date of her participation in premium conversion. To correct the error, the agency deducts \$200 from Ms. L's pay in the following pay period, during which she has begun participating in premium conversion. Since the deduction for FEHB coverage is taken after she begins participation in premium conversion, \$200 is afforded pre-tax treatment.

Ms. L's employing agency mistakenly does not process her participation in premium conversion. As a consequence, Ms. Lee's \$100 FEHB deduction is not afforded pre-tax treatment. To correct the error, the agency changes Ms. L's premium conversion status to "participant" in the following pay period. If not for the error, Ms. L. would have had \$200 deducted from her pay on a pre-tax basis. However, only \$100 is eligible for pre-tax treatment.

As you can see, under these rules an error correction may result in a greater or lower tax benefit than would otherwise have occurred.

CHOICES UNDER PREMIUM CONVERSION All qualified cafeteria plans under Section 125 of the Internal Revenue Code must offer employees a choice of benefits. FedFlex, the Federal Flexible Benefits Plan is no different.

What Are The Choices? You may choose to receive the benefit (pre-tax payment of FEHB contributions), or cash (receive your normal salary and make FEHB contributions after tax).

EFFECTIVE DATE The implementation of premium conversion is effective with the first payroll period beginning *on or after October 1, 2000*. No retroactive adjustments to taxable income may be made for any FEHB premiums deducted from pay prior to October 1st.

On-board Employees For most eligible employees, premium conversion becomes effective on October 8, 2000 [pay period 22], with the first pre-tax FEHB deduction occurring with the associated pay date near the end of October.

New Employees/ Employees with an Initial Opportunity to Enroll in the FEHB If your initial opportunity to enroll in FEHB occurs on or after October 1, your agency must deduct your premiums on a pre-tax basis from your pay effective with the first applicable payroll period beginning on or after October 1, 2000, unless you have waived participation in premium conversion.

ELIGIBILITY

Who is Eligible? If you are employed in the Executive Branch of the Federal Government, are participating in the FEHB Program, and your pay is issued by an Executive Branch agency, you are eligible to have your FEHB premiums paid under the premium conversion plan.

Who May Become Eligible?

If you are enrolled in the FEHB Program but are employed outside the Executive Branch, or your pay is not issued by an agency of the Executive Branch, you may be eligible if your employer agrees to adopt our plan and offer participation in premium conversion. All non-Executive branch agencies have been contacted by OPM with instructions on how to become part of the plan.

Who is Not Eligible?

The Judiciary Branch, U.S. Postal Service, and some smaller Executive Branch agencies with independent compensation-setting authority, have already implemented their own FEHB premium conversion plans; the employees of these entities will not participate in our premium conversion plan.

At the present time, annuitants and compensationers whose FEHB premiums are deducted from annuities and benefits are not eligible to participate in premium conversion. There are special rules for reemployed annuitants; see below.

Will this benefit also apply to retirees, survivors, and former spouses receiving civil service benefits?

No. Under section 125 of the Internal Revenue Code, pre-tax benefits are only available to current employees.

Will Federal employees on LWOP to work for a union be eligible for premium conversion?

If the union agrees to adopt our plan, premium conversion may apply to Federal employees on LWOP to work for a union.

Will Federal employees assigned to an international organization be eligible for premium conversion?

If the organization agrees to adopt our plan, premium conversion may apply to Federal employees on assignment to an international organization.

ENROLLMENT

How do Federal employees enroll in Premium Conversion?

Participation in premium conversion is automatic for eligible employees.

Can I choose not to enroll or participate in premium conversion?

Yes, but you need to opt-out or waive participation in premium conversion. You must file a waiver form by the date set by your agency, but not later than the day before the effective date of coverage.

Can I change my premium conversion participation status?

You may change your participation status in premium conversion during the annual FEHB open enrollment period, or during the calendar year if you have a qualifying life event. Qualifying life events include marriage, birth of a child, or change in a spouse's employment and are explained in more detail later in this document.

What happens if I am enrolled in premium conversion and leave the Government before the end of the calendar year?

Enrollment or participation in premium conversion ends if you terminate or are terminated from Federal government employment. If you are eligible and elect to participate in Temporary Continuation of Coverage (TCC), you pay those premiums directly on an after-tax basis.

FEDERAL BENEFITS

Is this an ongoing benefit?

Yes, once you participate in premium conversion, your participation continues automatically unless you elect not to participate. Each year during FEHB Open Season you may decide whether or not to participate for the following year.

Will premium conversion have any effect on CSRS, FERS, TSP, or FEGLI benefits? No. Federal retirement, thrift savings and life insurance benefits are not affected by participation in premium conversion.

Can non-FEHB benefits be purchased with pre-tax dollars under premium conversion? No, only deductions for FEHB premiums may be deducted pre-tax at this time.

FEDFLEX

What is FedFlex? FedFlex, The Federal Flexible Benefits Plan, is the name of OPM's cafeteria plan. In order to offer pre-tax benefits, OPM was required to create a plan document in accordance with IRS regulations that outlines the benefits and employee choices under that plan.

What benefits does FedFlex offer? Currently, the only benefit provided under FedFlex is premium conversion.

What are my choices under FedFlex? All eligible federal employees who participate in the FEHB Program are participants in the premium conversion plan. You may choose between allotting part of your salary to your employer who will use that allotment to provide a pre-tax benefit or receive your full salary in cash (paying for your FEHB premiums with after-tax dollars).

FEHB ENROLLMENT

Does premium conversion affect when I can make changes to my enrollment?

Yes, but only slightly. Currently, FEHB enrollment changes may only be made outside of the open season under certain circumstances. Under premium conversion, the opportunity to reduce or cancel your enrollment may be limited by the Internal Revenue Code. You will be allowed to drop coverage or change to self-only outside of Open Season only if your decision to do so comes at the time a qualifying life event (QLE). Please refer to the section on Qualifying Life Events for more information. These changes from current FEHB are minor, and the tax savings of premium conversion are significant.

FLEXIBLE SPENDING ACCOUNTS

What is a flexible spending account (FSA)?

A FSA is a tax benefit that allows an employer to withhold from salary amounts designated by individual employees that can later be used to reimburse those employees for medical care expenses not covered by the medical plan (FEHB, in our case); dependent-care costs; or other qualifying expenses. The amounts withheld are not subject to taxation, just like premium conversion.

What's the difference between a cafeteria plan and a FSA?

A flexible spending account is a type of benefit that may be offered under a cafeteria plan.

Is premium conversion a flexible spending account?

No, premium conversion is not a FSA. Premium conversion is another benefit that is typically offered in a qualified cafeteria plan, such as FedFlex.

Will Federal employees be getting other pre-tax benefits, such as flexible spending accounts?

Current Internal Revenue Code does allow other tax-advantaged benefit plan provisions, such as flexible spending accounts. OPM is analyzing the desirability and feasibility of offering other pre-tax benefits.

Can Executive Branch agencies independently offer flexible spending accounts?

Not at this time. The President has not authorized the implementation of flexible spending accounts in the Executive Branch.

LWOP

In certain circumstances, entering or returning from a period of unpaid leave (leave without pay, or LWOP) by you, your spouse or covered dependent may constitute a qualifying life event.

If you are entering a period of LWOP (more than 31 days) you will have the option to terminate or continue your FEHB coverage. If you elect to continue your FEHB coverage, you must choose one of the options available to pay your share of the premium. These are the *Pay-as-you-go*, and *Catch-up* options. In addition, under the IRS rules your agency may, but is not required to offer a *Prepay* option.

Pay-As-You-Go

Under the Pay-As-You-Go option, you pay your share of the FEHB premium directly to your employing agency while on LWOP. These payments will generally be made with after-tax monies, since there is no pay from which to make deductions.

Catch-Up

Most employees who have a period of LWOP choose to pay their FEHB premiums via the Catch-up option. Under this option, the agency remits your share of the FEHB premium to OPM while you are on LWOP. You incur an obligation to your employing agency and are required to repay it upon your return to pay status.

The repayment of the amount owed will be treated on a pre-tax basis, if it's deducted from pay and you participate in premium conversion **at the time the deduction is made.**

If you choose to repay the amount owed to your agency directly out-of-pocket your taxable income is not reduced.

Prepay

Your agency may (but is not required to) offer you the option to prepay your FEHB premium from salary before you go on a period of LWOP.

The amount of FEHB premiums you prepay in advance may either be deducted from your pay or paid directly "out-of-pocket" to your agency. Payments made "out-of-pocket" do not reduce taxable income. The amount of FEHB premiums that you prepay will be treated on a pre-tax basis, if it is deducted from your pay and you participate in premium conversion.

IRS rules limit the amount you may prepay on a pre-tax basis. If your period of LWOP will span two tax years, the amount that you may prepay on a pre-tax basis may not exceed the amount of FEHB premiums due for the remainder of the current tax year. If you wish to prepay the amounts due for the subsequent tax year as well, the deductions must be made after-tax. You may use the "Pay-As-You-Go" or "Catch-up" options for amounts due in the subsequent tax year.

Example

Sam A. participates in premium conversion and had \$100 per month in FEHB premiums deducted from his pay. He will go on LWOP for three months beginning on October 31, 2000 and opts to continue his FEHB coverage. Mr. A. uses the pre-pay option to pay from his salary the \$300 in FEHB premium payments that will be due while he is on LWOP. Mr. A. will receive pretax treatment for only \$200 of his FEHB premium prepayment- the amount he will owe for the months of November and December 2000. The remaining \$100 prepaid - the amount due for January 2001 - must be given after-tax treatment.

I'm an employee currently on LWOP and will return in mid-October. How should my premiums be treated?

The taxable treatment of your premium payment is determined by your status in premium conversion at the time the deduction is made from your pay. In this case, if you do not submit a waiver, you become a participant in premium conversion as of October 1st. Upon your return to pay status in mid-October, both current premiums and repayment of amounts owed will be treated on a pre-tax basis. Despite the fact that the obligation was incurred prior to implementation, it's being repaid after implementation, and therefore is deducted on a pre-tax basis from your salary.

I prepaid for three months of FEHB premiums prior to a period of LWOP. Three weeks after beginning LWOP, I resigned. How should that be handled?

Your participation in premium conversion ends on the day you terminate from Federal employment. The amount you prepaid from salary must be refunded to you, and that refund becomes taxable income.

OPEN SEASON

When is Open Season for premium conversion? The annual open season for premium conversion coincides with the FEHB open season, usually mid-November through mid-December.

What happens if an FEHB plan quits or becomes insolvent during the year and OPM offers a special Open Season? Can I change my election? Yes, since loss of coverage is a qualifying life event.

PARTICIPATION (also refer to the Eligibility or Enrollment sections)

Who should not participate? Regardless of your marital status, and the number of dependents you have, if you :

- pay no federal income tax, or
- earn less than \$6,400 per year

you should give serious consideration to waiving participation in premium conversion.

QUALIFYING LIFE EVENTS (QLEs)

What is a QLE?

A qualifying life event (QLE) is a term defined by OPM to describe events deemed acceptable by the IRS that may allow participants in cafeteria plans (including premium conversion) to change their participation election for premium conversion outside of an open season.

With two exceptions, the rules for changing FEHB enrollment outside of Open Season do not change. Most of the time, people make changes to their FEHB enrollment on account of and consistent with a qualifying life event. The opportunities for you to enroll or change enrollment described in 5 CFR Part 890, and described in the FEHB Employee Health Benefits Election Form (SF 2809) will continue to be allowed under premium conversion except:

- you may not cancel your enrollment at any time
- you may not change from self-and-family to self-only at any time.

You will still be allowed to make these changes to your enrollment if the change is on account of and consistent with a qualifying life event.

The IRS has additional events that will allow you to change your participation (election) in premium conversion. Read on for more information.

What are the additional QLE's? Under OPM's premium conversion plan, the qualifying life events that may allow you to change your premium conversion election are:

Changes in entitlement to Medicare or Medicaid for you, your spouse or dependent	<p>Your Spouse or dependent first becomes eligible for coverage under Medicare or Medicaid</p> <p>You, your Spouse or dependent loses entitlement to Medicare or Medicaid</p>
Employment Status	<p>Change in your employment status or that of your spouse or dependent from either full-time to part-time, or the reverse</p> <p>Start of your spouse's employment</p> <p>Your Spouse or dependent is employed in a position that offers health insurance</p> <p>Start or end of an unpaid leave of absence by you, your spouse or your dependent</p>
Other	Significant change in the cost or conditions of your spouse's health care coverage related to your spouse's employment that affects you

What is the difference between a QLE and FEHB's Opportunities to Change Enrollment? Today, you may elect to reduce your FEHB coverage at any time. Beginning in October, as a participant in premium conversion you will be able to reduce FEHB coverage only during an FEHB Open Season or in conjunction with a QLE. IRS rules govern these non-Open Season opportunities for those who participate in premium conversion.

What are some examples of QLEs that meet the "on account of and consistent with" criteria?

Mary J. is a single parent with one dependent, who will turn age 22 at the end of March. She wants to maintain her self-and-family coverage until that time. The loss of a qualified dependent is a QLE, and changing her coverage from self-and-family to self-only is on account of and consistent with that QLE. At the end of March, Mary changes her coverage to self-only.

Michael M., a federal employee, has self-only coverage and so does his wife, who is employed in the private sector. In June, she gives birth to their first child. Michael wants to cancel his FEHB coverage, saying that his wife has picked up family coverage that includes him and their new child. Michael's request is on account of and consistent with his QLE.

Monique K. begins an approved period of LWOP to attend school. She elects to keep her FEHB coverage, and incur an obligation to her employing agency. She may not change her FEHB coverage, but may change her premium conversion election.

Agencies must determine acceptable documentation for QLEs. Acceptable documentation includes birth and death certificates, marriage licenses, divorce papers, etc. When your QLE is one where documentation is not readily available the IRS has indicated that your certification of coverage under another health plan is sufficient.

REEMPLOYED ANNUITANTS

All participants in premium conversion must have their FEHB premiums deducted from their pay as employees, not from their retirement annuities. In order to allow eligible reemployed annuitants an opportunity to participate in premium conversion, their FEHB enrollment must be transferred from their retirement system to their employing agency. New guidelines for administering FEHB enrollments of reemployed annuitants during periods of reemployment are effective with the first pay period *on or after October 1, 2000*.

Reemployed Annuitants Enrolled in FEHB

Reemployed annuitants enrolled in the FEHB as of the effective date of premium conversion will automatically participate in premium conversion, provided they are employed:

- in a position that conveys FEHB eligibility; and
- by an agency covered by premium conversion.

Agencies must deduct FEHB premiums on a pre-tax basis from the pay of these individuals effective with the first day of the first pay period beginning *on or after October 1, 2000*, unless they waive participation in premium conversion.

Reemployed annuitants will have an initial opportunity to waive their participation in premium conversion. However, a reemployed annuitant will have up to 60 calendar days to submit a waiver. The waiver will be effective on the first day of the first pay period after the date your employing office receives it.

I'm a newly hired reemployed annuitant not enrolled in FEHB. May I participate in premium conversion?

Yes, if you are rehired in a position that conveys eligibility for FEHB coverage. You may enroll in FEHB under the same terms as any newly hired employee. You will automatically participate in premium conversion unless you file a waiver.

Reemployed Annuitants Not Enrolled in CSRS or FERS

A number of other federal retirement systems maintain FEHB enrollment information and deduct FEHB premiums from annuity checks. Some annuitants have retired under one of these systems and are currently reemployed by another federal agency. OPM has communicated with these retirement systems and suggested that they adopt the same procedures as OPM to allow all eligible reemployed annuitants the opportunity to participate in premium conversion.

Transfer-in FEHB Enrollment

Under CSRS/FERS, your employing office must transfer-in your FEHB enrollment as of your effective date of participation in premium conversion. Procedures and guidelines pertaining to the transfer of the FEHB enrollment of reemployed annuitants who participate in premium conversion are outlined in Payroll Office Letter P-00-13, FEHB Premium Conversion.

Employing Agency Must Contribute Employer Share of Premium

Currently, the employer share of the FEHB premium for reemployed annuitants under CSRS/FERS is paid from an OPM appropriation. Effective with these new rules, your employing office must contribute the employer share of the FEHB premium for all reemployed annuitants that are enrolled in the FEHB as employees. The employer contribution for reemployed annuitants will be remitted to OPM in the same manner as that for other employees.

Separation from Active Service

Your participation in premium conversion ends on the last day of the last pay period as an employee. When you separate from active service, your FEHB enrollment must be transferred back from your employing agency to OPM or

the appropriate retirement system.

I'm a reemployed annuitant working part-time. Should I participate in premium conversion?

There are a number of factors for you to consider if you are employed part-time. Although you will not be eligible for the full government contribution, your entire employee contribution will be pre-tax if you participate in premium conversion. That larger reduction in taxable income might offset the lower government contribution. If you are a part-time reemployed annuitant, we suggest that you consult your agency or a qualified tax advisor to review your individual situation.

RETIREMENT

Will this have an effect on my retirement benefits?

No. Whether you participate in CSRS or FERS, your retirement benefit is based upon your gross salary

Will premium conversion affect my base salary for the purpose of determining my "high 3"?

No. Again, premium conversion has no effect on retirement benefits or retirement calculations.

SEPARATION FROM SERVICE

Your participation in premium conversion ends on your last day of employment.

Can employees pre-pay their FEHB premium prior to separation from service and have that be pre-tax?

No.

SOCIAL SECURITY

What's the impact of premium conversion on my Social Security benefits?

Premium conversion may slightly reduce the Social Security benefit you will receive upon retirement. The extent of the impact depends upon several factors:

- the retirement system that you participate in;
- whether your salary exceeds the Social Security wage base; and
- the number of years left until your retirement.

What if I am covered under CSRS?

You are generally better off with premium conversion. Your tax savings are slightly less, since you don't pay Social Security taxes. However, a reduction in Social Security benefits is not an issue for you since Social Security is not a component of your Civil Service Retirement.

Even if you have Social Security coverage as a result of a non-Federal job, premium conversion would not change your Social Security benefit.

What if I am covered under CSRS Offset?

Under CSRS offset, your Social Security benefits would be slightly reduced, but your CSRS Offset benefits would be increased by almost the same amount. Participating in premium conversion is most likely a benefit to you.

What if I am covered under FERS?

Your Social Security benefits are calculated on your taxable earnings, so any reduction in your taxable income will affect your Social Security calculations.

How much smaller will my Social Security benefit be?

The small reduction in Social Security benefits is greatly outweighed by the much larger tax savings. In each case we tested, the increase in take-home pay far exceeded the minor loss in monthly Social Security benefits.

Here is a simple formula you can use to estimate the difference in your Social Security benefit:

1. Take the number of years you will participate in premium conversion (from now until your estimated retirement) and divide by 35.
2. Multiply this by your current annual FEHB premium
3. Multiply the result of Step 2 by the marginal SSA rate (15% for most Federal employees)

The result is the **annual** loss of Social Security benefits.

(# of Years of Premium Conversion /35) X Annual FEHB Premium X marginal SSA rate = Annual Loss

Example

You participate in FERS. We assume that you've had a full career of FICA contributions, with an ending salary (today) of \$50,000 and projected retirement at age 66 in January 2016. Your estimated Social Security benefit equals \$1,414 per month.

You begin participating in premium conversion and reduce your taxable income by \$2,000, the amount of your FEHB premium. By changing your salary to \$48,000, your monthly Social Security benefit is now \$1,403, an \$11.00 per month difference in today's dollars.

$$15/35 = .4286 \times 2000 = 857 \times .15 = 128.55 \text{ or } 11$$

Compare that to the estimated \$67 increase in take home pay per month.

For more specific information on how the Social Security benefit is calculated, refer to www.ssa.gov. For help in calculating the difference in your benefit, we have developed a worksheet. It is available on our website, and from your employing agency.

I am covered under FERS, and have a part-time job in the private sector. Will I lose any Social Security Benefits?

Probably not. Premium conversion affects only your Federal salary, and Social Security is based on total taxable earnings. The earnings from your non-Federal job will be added to your Federal taxable earnings.

I am covered under CSRS, but worked for 15 years in the private sector prior to my Federal employment. Will my Social Security benefits be impacted?

No, since your Social Security covered income does not change.

I am over 65 and already collecting my Social Security benefit. If I participate in premium conversion, what happens to my SS benefit?

If you are receiving the maximum Social Security benefit, premium conversion will have no impact. You cannot receive any more than the maximum benefit, and you will not lose any benefit.

If you are not receiving the maximum Social Security benefit, your benefit will be recalculated as you continue to earn. Your benefit may increase as a result of those recalculations, but it will not be reduced.

What's the payback period if I decide to waive premium conversion solely on the basis of my Social Security benefit?

The Office of Personnel Management (OPM) did some calculations comparing the increase in take home pay to the loss of SS benefits at various income and Federal income tax levels. The results presented below show how many years of additional SS benefits it would take to make up for the take home pay you will lose by not participating in premium conversion. The calculations were simplified; they don't account for the fact that your take home pay will increase now, but you probably won't be receiving your Social Security benefits until many years from now.

The amount of your FEHB premium does not affect the calculations.

<i>Salary</i>	<i>Income Tax Rate*</i>	<i>Years of SS Benefits To Recover Lost Pay</i>
To \$6,400	0%	4
	15%	11
	28%	17
\$6,401 to \$32,100	0%	10
	15%	31
	28%	49
\$32,100+	0%	22
	15%	66
	28%	104

**Marginal Federal rate. If you don't know yours call your Payroll Office*

As you can see if you don't have to pay any Federal income tax, you lose the primary benefit of premium conversion. But some individuals might still want to participate because their Social Security and Medicare taxes will be lower. You also can see that at very low earnings levels (\$6,400 or less) the decision is less clear cut. OPM's statistics indicate there are less than 100 employees in this category.

**TAXES, TAXES,
TAXES**

How are my FEHB insurance premiums taxed now?

You receive a salary and then your contribution to pay for FEHB coverage is withheld (post-tax). You pay tax on the salary received -- the amount before the health insurance premium is withheld. Thus, you pay tax on a larger amount of income.

How much money will I save?

Based on information from the Department of the Treasury, the *average* Federal employee who participates in the FEHB Program will save \$434 per year in Federal income, Social Security and Medicare taxes. In most jurisdictions, state and local income taxes also will be reduced.

How do I figure out my savings?

The quickest way to determine the amount of money you will save yearly is simply to calculate (separately or combined) the tax rate multiplied by the total amount of health insurance premiums. These examples show the savings for a typical employee in the 28% tax bracket:

	Self-only	Self-and-Family
Yearly FEHB premium:	\$700.00	\$1,600.00
Federal income tax savings:	\$196.00	\$448.00
FICA tax savings (7.65%):	\$53.55	\$122.40
Annual Savings	\$249.55	\$570.40

These examples do not include savings on state and local taxes.

Are my state and local taxes reduced by premium conversion?

Yes, taxes in 49 states and most localities will be reduced; exceptions include the state of New Jersey and the Commonwealth of Puerto Rico. OPM monitors changes in state and local tax regulations, and provides guidance to your agency as needed. Regardless of where you live, FEHB premiums are not subject to Federal taxes.

FICA Taxes

If you are covered by FERS and participate in premium conversion, FEHB premium deductions will also be excluded from gross pay before Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare taxes are applied. Employer FICA contributions will also be reduced in concert with the decrease in employee withholdings.

Are my taxes avoided or simply deferred? Won't I owe the IRS money come next April?

Taxes are avoided, not deferred. Premium conversion eliminates the taxes you pay on the part of your salary that pays your FEHB premiums. Since your taxable income is lower with premium conversion, the amount you owe in taxes is reduced. You won't owe the IRS money in April because of premium conversion.

What impact does premium conversion have on my ability to deduct my FEHB premiums as a medical deduction on my income tax return?

If you participate in premium conversion, you are not able to deduct FEHB premiums as a medical deduction on your income tax return. That is because you are no longer paying the premium--it's being paid by your employing agency.

How will premium conversion affect the amount I receive under the Earned Income Tax Credit (EITC)?

Premium conversion does not affect your EITC. The EITC is based on Total Earned Income (TEI), which includes both taxable and nontaxable earned income. Taxable earned income includes money earned as wages, salaries and tips while nontaxable earned income includes salary deferrals and reductions. Premium conversion falls under the category of nontaxable earned income because salary is reduced by an amount equal to a health insurance premium payment and a health insurance premium is then paid with these pre-tax dollars. The EITC amount is unaffected by premium conversion because premium conversion shifts health insurance premium payments from taxable to nontaxable earned income, both of which are included in the TEI when calculating the EITC.

**TEMPORARY
CONTINUATION
OF COVERAGE
(TCC)**

Will the premium that I pay for continuation of coverage for my 22-year-old child be included in the premium conversion plan? No, premiums that are paid under TCC are not eligible for premium conversion. Although we realize that you may make the premium payments on behalf of your child, the TCC policyholder is the child. General tax rules do not allow pre-tax deductions for those who fail to qualify as dependents under the tax code. Since your child is no longer a qualified dependent under the FEHB Program, pre-tax premium payments are not applicable.

WAIVERS

How do I waive premium conversion? You should obtain, complete and return a waiver/election form to your employing office. If your employing office receives that form before the beginning of the first pay period that begins on or after October 1st, the waiver will be effective.

You may also waive participation in premium conversion (or elect to participate, if you previously waived) during the annual FEHB Open Season. Finally, you may have the opportunity to waive participation in premium conversion if you've experienced a Qualifying life event (QLE). Refer to the QLE section for more information.

I'm starting a new position in mid-September. Will I have some time to find out more about premium conversion before making a decision? If you are newly employed, and your initial opportunity to enroll in FEHB extends past October 1, you will still have the opportunity to waive participation in premium conversion. If your FEHB election is made after the start of your agency's first payroll period on or after October 1, and you also decide to waive participation in premium conversion, you must submit your waiver WITH your FEHB enrollment.

FEHB Open Season

During the FEHB Open Season, you will have an opportunity to elect or waive your participation in premium conversion. An Open Season election to participate or waive participation in premium conversion must be received by your employing agency no later than the last day of the Open Season to be considered timely filed. The effective date of your election will be the same as the effective date of an FEHB enrollment election: the first payroll period that begins *on or after January 1st*. If your agency accepts and processes a late Open Season enrollment election, it must also accept a late election to participate or waive participation in premium conversion.

Because elections begin with pay periods, when you change participation in premium conversion (begin or waive participation) during the FEHB Open Season, there will likely be at least one payroll paid date in the subsequent calendar year in which your FEHB deductions reflect the previous election.

Example

Mark G. had previously waived participation in premium conversion. He opted to participate again in premium conversion during the November 2000 Open Season. Mr. G. is paid on a biweekly basis, with the following payroll periods:

Payroll Period	Begin Date	End Date	Pay Date	Pre-Tax/ After-tax
01	12/17/00	12/30/00	1/9/01	after-tax
02	12/31/00	1/13/01	1/23/01	after-tax
03	1/14/01	1/27/01	2/6/01	pre-tax

Mr. Marks' payroll office would treat his FEHB deductions on an after-tax basis through the end of payroll period 02.

Why would someone waive premium conversion? What are the disadvantages?

For a small number of individuals it may make sense to waive premium conversion. There are three items to consider in making a decision to waive participation and they are:

Flexibility

Under IRS rules, you may reduce coverage (cancel, or change from self-and-family to self-only) only during an Open Season or at the time of a qualifying life event.

Social Security

Paying your premiums with pre-tax money reduces your earnings reported to the Social Security Administration. When you begin to collect Social Security (normally this occurs at age 65), you may receive a slightly lower Social Security benefit. The extent of the impact will vary depending upon the retirement system you participate in, your salary compared with the Social Security was base (\$76,200 in 2000) and the number of years until you retire.

What do I lose if I waive participation in premium conversion?

By choosing to waive participation in premium conversion, you lose the opportunity to take advantage of the tax savings that it provides. Please see the example below (please note savings vary by location since state and local tax savings usually exist in addition to Federal tax savings):

	Self-only	Self-and-Family
Yearly FEHB premium:	\$700.00	\$1,600.00
Federal income tax savings:	\$196.00	\$448.00
FICA tax savings (7.65%):	\$53.55	\$122.40
Annual Savings	\$249.55	\$570.40