

FEHB PREMIUM CONVERSION

Information Notice

A “premium conversion plan” for most enrollees in the Federal Employee’s Health Benefits (FEHB) Program will be effective with the pay period beginning October 8, 2000.

What is premium conversion?

Premium conversion reduces an employee’s taxable income by the amount of his or her health insurance premium. As a result, the employee pays less tax.

How does it work?

Under a health insurance premium conversion arrangement, an employee’s taxable income is reduced by the amount of health insurance premiums withheld from pay. See illustration below.

Federal Income Taxes: Like employee contributions to the Thrift Savings Plan (TSP), FEHB deductions from the pay of those participating in the health benefits premium conversion plan will be excluded from gross pay before Federal Income taxes are applied.

State and local income taxes: Like employee contributions to the TSP, FEHB deductions from the pay of those participating will generally be excluded from gross pay before state and local income taxes are applied. Each state and local government, however, makes an individual determination as to whether to allow the pre-tax treatment for deductions under premium conversion plans.

FICA taxes: Unlike employee contributions to the TSP, FEHB premium deductions from the pay of those participating will be excluded from gross pay before OASDI (Social Security) and Medicare taxes are applied. Employer FICA contributions will also be reduced in conjunction with the decrease in employee withholdings.

	Before premium conversion	After premium conversion
Gross Pay	1,000.00	1,000.00
TSP	-50.00	-50.00
FEHB Premium		-100.00
Adjusted Gross Pay	950.00	850.00
FEHB Premium	-100.00	
FEGLI	- 4.34	- 4.34
FERS (1.2%)	- 12.00	-12.00
Income Tax (28%)	-266.00	-238.00
OASDI (6.2%)	- 62.00	- 55.80
Medicare (1.45%)	- 14.50	- 13.05
Take Home Pay	\$491.16	\$526.81

Note: Deductions for retirement (CSRS & FERS), life insurance, and the TSP are based on “unadjusted” gross pay. Participation in the FEHB premium conversion plan will have no effect on these deductions.

How do I sign up for premium conversion?

Participation in premium conversion is **automatic**. Employees will have no forms to fill out, unless they choose to waive participation.

Why would I consider waiving premium conversion?

Premium conversion reduces the amount of taxable income so it may also slightly reduce the base on which Social Security benefits are calculated for a FERS or CSRS Offset employee.

How do I waive participation?

You must waive participation no later than October 7, 2000. Currently, there are plans for this to be accomplished by using Employee Express. If Employee Express is not ready in time, a paper waiver form will be available. Additional information will be available soon.

When will the premium conversion begin?

Premium conversion will be effective October 8, 2000. Participants will see the change reflected in their payroll checks received on November 2, 2000

Am I eligible for premium conversion if I am retired and have come back to work for the Federal Government?

If you are a retired individual enrolled in FEHB who is receiving an annuity and you are reemployed in a position that conveys FEHB eligibility, you are automatically covered by premium conversion, unless you waive participation. If you do not waive premium conversion, your FEHB coverage will be transferred to your employing agency. Your coverage will be based on your status as an active employee and your employing agency will deduct your premiums from your salary. If you elect to waive participation in premium conversion, you will keep your FEHB coverage as an annuitant, but it will be on an after-tax basis.

Can I cancel my FEHB enrollment or change from self and family enrollment to self only at any time while I am participating in the premium conversion plan?

Under current regulations, employees have been able to cancel their health insurance or change from self and family to self only at any time. Effective October 8, 2000, if you are a participant, you can change from self and family to self only or cancel your insurance only during the annual open season or after a qualifying life event. If you are a non-participant, you will continue to be able to cancel your insurance or change from self and family to self only at any time.

What is a qualifying life event?

Some examples of qualifying life events include: Addition or loss of a dependent; birth or adoption of a child; death of your spouse or dependent; divorce or annulment; marriage; commencement or return from an unpaid leave of absence; significant changes in the health coverage of you or your spouse related to the spouse's employment.

Are there any subsequent opportunities available to participate or to waive participation?

Generally, once you elect to participate or elect to waive participation, you may not change except during the annual FEHB open season or in the case of a qualifying life event.

Who do I call if I have questions?

Contact your human resources office. Or visit the Office of Personnel Management's FEHB Web Page at:
www.opm.gov/insure/health/pretaxfehb