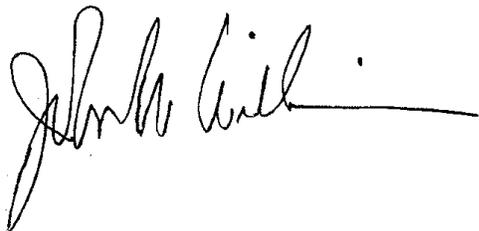


For: FSA, RMA, and FAS Employees

Federal Employees Health Benefits Premium Conversion (FEHB-PC)

Approved by: Deputy Administrator, Management



1 Overview

A

Background

In adhering to the President’s initiatives to enhance the benefits package offered to Federal employees, OPM will implement a “premium conversion plan” for most enrollees in the FEHB Program. FEHB-PC is a qualified “cafeterial plan” under Section 125 of the Internal Revenue Code.

By participating in FEHB-PC, employees will in effect have chosen to have their salary reduced and the amount of that reduction applied by their agency toward their FEHB premiums. Since the participating employees will not receive the amount of the salary reduction, it will not be considered gross income for tax purposes. For employees who participate, employment taxes will be reduced, and they will take home more of their pay.

B

Purpose

This notice:

- announces FEHB-PC
- informs employees on enrollment in FEHB-PC
- explains the effect of FEHB-PC on taxes and benefits
- provides a waiver form to employees who do not wish to participate.

Continued on the next page

<p>Disposal Date</p> <p>January 1, 2001</p>	<p>Distribution</p> <p>All FSA, RMA, and FAS employees; State Offices relay to County Offices</p>
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1 Overview (Continued)

C

**Supervisory
Action**

All supervisors must provide a copy of this notice to any of their employees that will not return to their office before October 6, 2000. Examples of extended absences include but are not limited to:

- leave without pay
 - details
 - extended annual/sick leave
 - long-term training assignments
 - TDY.
-

D

**National Office
Contacts**

National Office employees shall follow this table for additional information.

IF employee needs to...	THEN contact...
obtain/submit FEHB-PC waiver/election form	HRD, Domestic Operations Branch, Services Unit by telephone at 202-418-9135 or 202-418-9136, or in Room 4713-South Building.
receive policy information	HRD, Performance Management Benefits and Awards Branch at 202-418-9039 or 202-418-9021, or TDD at 202-418-9116.

E

**Field Office
Contacts**

Field Office employees shall contact the appropriate office for additional information.

Location	Contact
<ul style="list-style-type: none"> • All Kansas City Offices • Research and Development Division • APFO 	KCAO, Personnel Division, Processing Section at 816-926-6225 or TDD at 816-926-7440
FAS Overseas Employees	HRD, Performance Management Benefits and Awards Branch: <ul style="list-style-type: none"> • Susan Brown at 202-418-9039 • Darla Hensley at 202-418-9021 • TDD at 202-418-9116.
RMA Regional Service and Compliance Field Offices	
State/County FSA Office	State Office, Administrative Division

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2 Participating in FEHB-PC

A

FEHB-PC

Under FEHB-PC, an employee's taxable income is reduced by the amount of his or her share of their health insurance premium. FEHB-PC reduces the employee's taxable income by the amount of his or her health insurance premium and, as a result, pays less tax.

Note: Premiums that are paid under Temporary Continuation of Coverage are not eligible for premium conversion.

FEHB-PC occurs on a pre-tax basis; therefore, the money is not subject to Federal, State, or local taxes.

Premiums are not affected; however, paying health insurance premiums pre-tax will make FEHB coverage more affordable.

The Government will still pay the Government share of premiums.

B

Eligibility

All employees who participate in the FEHB Program are eligible to participate in FEHB-PC.

Note: Employees assigned to international organizations may participate if the organization agrees to adopt premium conversion.

C

Re-employed Annuitants

Re-employed annuitants may be eligible if they are enrolled in FEHB as an annuitant and are re-employed in a position that is eligible for FEHB coverage. If eligible for FEHB-PC, coverage will be automatically transferred to your employing agency unless participation is waived by the re-employed annuitant. Coverage will then be based on an active employee status and the servicing Human Resources Office will deduct the premiums from the employee's salary rather than the annuity.

If participation is waived, FEHB premiums will be paid from the employee's annuity, on an after-tax basis.

Continued on the next page

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2 FEHB-PC (Continued)

D

Effective Date

Refer to the following table for effective dates.

IF you are...	THEN your effective date is...
a current, eligible employee	October 8, 2000, unless waived
a new employee or an employee with an initial opportunity to enroll that occurs on or after October 1, 2000	October 8, 2000, or the first pay period after receipt of SF-2809, Health Benefits Registration Form, unless participation is waived with enrollment. Note: Employee must turn in waiver with SF-2809 or participation is automatic.
on leave without pay	October 8, 2000, unless participation is waived Note: Upon return to pay status, both current premiums and repayment of amounts owed will be treated on a pre-tax basis.

E

How to Participate in FEHB-PC

Eligible employees need take no action to participate in FEHB-PC during the implementation effective October 8, 2000. Employees who have FEHB premiums deducted from their pay will be deemed to have elected FEHB-PC unless they waive participation.

After the implementation period, eligible employees should:

- complete the FEHB Premium Conversion Waiver/Election Form (Exhibit 1), available from either of the following:
 - the FSA BBS Forms Library, file name: fehb.pdf
 - the FSA Forms On-line Website at <http://www.fsa.usda.gov/dam/forms/fsaforms.asp>.
 - submit it to their servicing personnel office.
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F

Initial Waiver of Participation

Current eligible employees can waive participation by completing Exhibit 1.

Submit all waivers to the appropriate contact listed in subparagraph 1 D or 1 E by **COB Friday, October 6, 2000.**

Under NO circumstances may waivers be made retroactive.

Notice PM-2201

3 Effect on Employment Taxes, Take-Home Pay, and Other Benefits

**A
Taxes**

Taxes are avoided, not deferred. Employees will not owe the IRS money in April because of premium conversion.

Employees who participate in FEHB-PC and itemize their taxes, including their health insurance premiums, should deduct premiums from pay periods 1 through 20 for the year 2000. Participants should not itemize premiums after pay period 20.

Refer to the following chart for the effect of FEHB-PC on the various types of taxes.

Type of Tax	Effect of FEHB-PC
Federal Income Tax	FEHB deductions will be excluded from gross pay before Federal income taxes are applied.
State and Local Income Taxes	FEHB deductions will be excluded from gross pay before State and local income taxes are applied. Note: New Jersey and the Commonwealth of Puerto Rico do not allow for the reduction of taxable income for FEHB premiums under FEHB-PC.
FICA (Social Security) Note: Refer to Exhibit 2 for more information about Social Security and FEHB-PC	FEHB deductions will be excluded from gross pay before Old Age, Survivors, and Disability Insurance (OASDI) and Medicare taxes are applied. Notes: Since FICA taxes will be applied on your adjusted gross pay, this will nominally affect the amount that you pay into the Social Security system and therefore nominally affect your Social Security Benefit. Employees who pay the maximum Social Security taxes each year will still most likely meet the maximum on premium conversion.

Continued on the next page

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3 Effect on Employment Taxes, Take-Home Pay, and Other Benefits (Continued)

**B
Effect on
Take-Home Pay**

The effect of FEHB-PC on participant’s take-home pay should be a positive one resulting with more take-home pay. Refer to the following comparison as 1 example.

Note: The following table is an **example only**. Individual results will vary.

Item	Non Participant in FEHB-PC	Participant in FEHB-PC	Difference
Gross Pay	\$1,000.00	\$1,000.00	
FEHB Premium Deduction	N/A	100.00	
Adjusted Gross Pay	\$1,000.00	900.00	-\$100.00
FEHB Premium Deduction	100.00	N/A	
Basic Life Insurance	4.34	4.34	
FERS Deduction	12.00	12.00	
TSP Deduction	50.00	50.00	
Federal Income tax	280.00	252.00	-28.00
OASDI tax	62.00	55.80	-6.20
Medicare tax	14.50	13.05	-1.45
State taxes	50.00	45.00	-5.00
Take-Home Pay	427.16	467.81	+\$40.65

**C
Effect on Other
Benefits**

The following deductions are based on unadjusted gross pay. FEHB-PC will have no effect on an employee’s:

- CSRS and FERS retirement contributions
- Federal Employee Group Life Insurance premiums
- Thrift Savings Plan contributions.

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4 Subsequent Opportunities to Participate or Waive Participation

A

Overview

Employees participating in or who have waived participation in FEHB-PC may not change their FEHB-PC status except:

- during the annual FEHB Open Season
 -
 - upon experiencing a qualifying life event (QLE) such as:
 - marriage or loss of a spouse
 - birth of a child or adoption
 - divorce
 - death of a dependent
 - return from an unpaid leave of absence
 - significant changes in your or your spouse's health coverage.
-

B

Open Season

During the FEHB Open Season, employees will have the opportunity to:

- elect to participate
- waive participation.

A FEHB-PC election/waiver must be received by the last day of the Open Season period and will be effective the same pay period as other Open Season changes.

Employees shall submit Exhibit 1 to make Open Season elections/waivers to the submitting office outlined in the annual Open Season All Employee Notice.

C

QLE

Employees may elect to participate or waive participation in FEHB-PC upon experiencing QLE.

FEHB Premium Conversion Waiver/Election Form

**Federal Employees Health Benefits Program (FEHB)
Premium Conversion Waiver/Election Form**

Purpose of This Form

This form is used to elect or waive pre-tax treatment of employee premium contributions to the FEHB Program. Pre-tax treatment is automatic. You do not need to complete this form unless you elect not to have your FEHB premium contributions deducted on a pre-tax basis, or you previously waived this benefit and now elect to participate.

I. PARTICIPANT INFORMATION			
Last Name	First Name	MI	SSN
Agency/Bureau Name	Agency/Bureau Address	Office phone	
II. ELECTION TO WAIVE PARTICIPATION IN PREMIUM CONVERSION			
<i>I elect to waive participation in premium conversion and the pre-tax treatment of my FEHB premiums. I would like to have my FEHB premium contributions deducted from my pay on an after-tax basis.</i>			
Signature		Date	
<input type="checkbox"/> This is my initial opportunity to waive participation in premium conversion <input type="checkbox"/> I am making this election to waive participation during FEHB Open Season <input type="checkbox"/> I wish to waive participation in premium conversion on account of and in accordance with a Qualifying Life Event			
III. ELECTION TO RESTORE PARTICIPATION IN PREMIUM CONVERSION			
<i>I elect to have my FEHB premiums deducted from my pay on a pre-tax basis. I understand that I may only change my FEHB premium deductions to an after-tax basis during a subsequent Open Season or upon a Qualifying Life Event. See instructions for acceptable events.</i>			
Signature		Date	
<input type="checkbox"/> I am making this election to participate during the FEHB Open Season <input type="checkbox"/> I wish to participate in premium conversion on account of and in accordance with a Qualifying Life Event			
IV. TO BE COMPLETED BY PAYROLL/PERSONNEL STAFF			
Approved <input type="checkbox"/> Disapproved <input type="checkbox"/> Effective Date: MM/DD/YYYY			
Authorized agency official: _____		_____	
Signature		Date	

Privacy Act Statement: This information is collected under 5 C.F.R. § 892 and will be used to process your decision to waive or restore the pre-tax treatment of your FEHB premiums. This information may also be used pursuant to routine uses promulgated by OPM under 5 U.S.C. § 552a(b)(3). Completion of this form is voluntary. However, if this information is not provided, we will be unable to process your waiver or restoration of premium conversion.

Continued on the next page

FEHB Premium Conversion Waiver/Election Form (Continued)

Instructions for Completing the FEHB Premium Conversion Election/Waiver Form	
Use this form to	<ul style="list-style-type: none"> ✓ Waive premium conversion and the pre-tax treatment of FEHB premiums ✓ Restore premium conversion if previously waived
Do not use this form to	<ul style="list-style-type: none"> ✓ Elect premium conversion UNLESS you have previously waived it ✓ Waive premium conversion if you have already waived it ✓ Enroll in the FEHB Program. A separate form is used for that purpose
Who May Use This Form	Employees who are eligible for pre-tax treatment of their FEHB premiums
General Information	Further information on premium conversion may be obtained on the OPM website: www.opm.gov
Effective Dates	
For Waivers	<p>If you wish to waive pre-tax treatment when premium conversion becomes effective on October 1, 2000, this form must be completed by you and received by your employing office the earlier of: the date set by your employing agency, or the day before the first pay period that begins on or after October 1, 2000.</p> <p>Your decision to waive pre-tax treatment must be made during FEHB Open Season or within the specified time period after a Qualifying Life Event (QLE). If you change your participation during Open Season, it will become effective on the first full pay period in the following calendar year. If you change your participation as a result of a Qualifying Life Event, the change will be effective the first full pay period after this form is received by your employing office.</p> <p>Newly hired employees who want to waive pre-tax treatment need to submit this form at the same time as SF-2809, Employee Health Benefits Election Form. Pre-tax waivers made by newly hired employees take effect at the same time that FEHB coverage is effective.</p> <p>Your decision will continue indefinitely unless you later submit a new election/waiver form to change the tax treatment of your contributions to FEHB.</p>
For Restorations	<p><i>IRS Guidelines—Restrictions on Changing Health Benefits Coverage (Pre-tax Treatment)</i> To make a change outside of the FEHB Open Season, (switch plans or options, cancel your enrollment, or change from family to self-only) or to change your participation in premium conversion you must have experienced a QLE and the change in coverage must be on account of and in accordance with that QLE. This differs for employees covered by after-tax treatment, who may reduce their level of coverage at any time. The difference is because pre-tax treatment is subject to Internal Revenue Service (IRS) guidelines. Keep this information in mind when making your decision.</p> <p>If your change is allowed, it will be effective the first full pay period after this form is received by your employing office.</p>
Qualifying Life Events (QLEs)	<p>QLEs are events that may allow you to make a change in your premium conversion election outside of open season. Ask your employing agency for more information on whether your event meets the criteria of a qualifying life event.</p> <p>With two exceptions (noted above), the rules for changing FEHB enrollment outside of Open Season do not change. The opportunities for you to enroll or change enrollment described in 5 CFR Part 890, and in the FEHB Employee Health Benefits Election Form (SF 2809) will continue to be allowed under premium conversion.</p> <p>The IRS has additional events that will allow you to change your participation (election) in premium conversion. Please see OPM's website for more information.</p>

Premium Conversion Questions and Answers--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
 - 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.

$(\# \text{ of Years of Premium Conversion} / 35) \times \text{Annual FEHB Premium} \times \text{marginal SSA rate} = \text{Annual Loss.}$

Continued on the next page

Premium Conversion Questions and Answers--Social Security (Continued)

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.

$$15/35 = .4286 \times 2000 = 857 \times .15 = 128/12 = 10.71 \text{ or } 11$$

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.

Continued on the next page

Premium Conversion Questions and Answers--Social Security (Continued)

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.

Salary	Income Tax Rate*	Years of SS Benefits To Recover Lost Pay
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.
