



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

Number: 00-215

Date: August 24, 2000

**Subject:** *Pre-Tax Payment of FEHB Insurance Premiums (Premium Conversion)*

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Starting with the first pay period that begins on or after October 1, 2000, most Federal employees in the Executive Branch will see an increase in their take-home pay. That's because the U.S. Office of Personnel Management (OPM), in cooperation with Departments and Agencies, has implemented premium conversion for Federal employees. This Benefits Administration Letter (BAL) provides you with the information and guidance you need to implement and administer this new pre-tax benefit.

Payroll Office Letter P-00-13 dated July 13, 2000 includes information and instructions needed by payroll offices as they adapt their systems for premium conversion by October 1. Benefits Officers should focus their attention on the few minor changes in Federal Employees Health Benefits Program rules that are explained under "What's Different?" below.

We have received questions about the effect of premium conversion on Social Security. This Letter and the information on our web site will allow you and your employees to see the effects of premium conversion. Nonetheless, employees have a right to waive the benefits of premium conversion. This is a personal decision. We can tell you in advance, however, that the vast majority will not waive, because premium conversion will be a "no-brainer."

We have created a series of questions and answers on our website: [www.opm.gov/insure/health/pretaxfehb](http://www.opm.gov/insure/health/pretaxfehb). This site is the first and best source for up-to-date information on premium conversion. We encourage you and your employees to check it for updates periodically. If you do not find the answer to your question, please email us at [fehb@opm.gov](mailto:fehb@opm.gov). We will respond to all your questions, as well as update the web site as needed.

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*Civil Service  
Retirement  
System*

*Federal Employees  
Group Life  
Insurance*

*Federal Employees  
Health Benefits  
Program*

*Federal Employees  
Retirement  
System*

Enclosures to this document include:

- "Good News!", a sample handout with information for employees;
- a " Premium Conversion Financial Worksheet," with instructions for employees on how to compute their tax savings and to estimate the effect of premium conversion on Social Security benefits; and
- a sample "Premium Conversion Waiver/Election Form" template. The actual template is available on our web site. You should modify the waiver form template (for example, putting your agency logo in the upper left corner, etc.) and locally reproduce the document.

### **What's Different?**

For the most part, it's business as usual. We have received a number of questions from payroll and personnel offices that are under the false impression that premium conversion has changed many of the rules affecting the FEHB and premium deductions. Only a few situations change under premium conversion:

Beginning with the first pay period that begins on or after October 1, the deduction for FEHB premium will be the amount converted to pre-tax. This includes deductions for retroactive coverage, payback of premiums from a prior period of LWOP and other adjustments.

Except during open season, an employee participating in premium conversion will not be allowed to cancel coverage or change from self and family to self only unless the cancellation or change is due to a "qualifying life event" and the request is filed timely.

An agency may, but is not required to, offer an employee the option to pre-pay FEHB premiums prior to beginning a period of Leave Without Pay (LWOP). We expect that few agencies will be able to offer this option right away.

While annuitants are not eligible for premium conversion, reemployed annuitants employed in positions that normally convey FEHB eligibility may participate in premium conversion, and each of them has an election to make (see below).

Except for these situations, the FEHB rules have not changed. You will find that you arrive at the correct answer if you apply two simple rules:

Process the action in question exactly as you would have before (except for a cancellation or change to self only, which now require a "qualifying life event"); and

If premium conversion is in effect for an individual, then any deduction for FEHB premiums is subject to conversion (including retroactive and other adjustments).

## **What is Premium Conversion?**

Premium conversion is a tax benefit. It allows an employee to allot a portion of salary back to the employer, which the employer then uses to pay the employee's contribution for Federal Employees Health Benefits (FEHB) coverage. This allotment is made on a pre-tax basis, which means that the money is not subject to Federal income, Medicare, or Social Security taxes. In most States and many localities that impose an income tax, the allotment will not be subject to those taxes as well. The allotment reduces the employee's taxable income, so less tax is withheld, and paychecks are larger.

The Government will still pay the Government share of premiums as provided in the Federal Employees Health Benefits Act. Premiums are not affected; however paying health insurance premiums on a pre-tax basis will make FEHB coverage more affordable for Federal employees.

## **Who's Eligible?**

All employees in the Executive Branch of the Federal Government who are participating in the FEHB Program and whose pay is issued by an Executive Branch agency are eligible to have their FEHB premiums paid under the premium conversion plan. Individuals enrolled in the FEHB Program who are employed outside the Executive Branch, or whose pay is not issued by an agency of the Executive Branch, may be eligible if their employer agrees to adopt our plan and offer participation in premium conversion.

We have contacted all non-Executive Branch agencies that employ individuals covered under FEHB to offer participation in the premium conversion plan. A listing of those agencies can be found on our website. If you are not sure if your agency/organization is automatically covered under our plan, please contact OPM's Insurance Policy and Information Division at (202) 606-0191.

## **Reemployed Annuitants**

Reemployed annuitants enrolled in the FEHB Program are eligible to automatically participate in premium conversion, provided they are employed:

- in a position that normally conveys eligibility for FEHB coverage, such as a career or career-conditional appointment; and
- by an agency covered by OPM's premium conversion plan.

In order for eligible reemployed annuitants to participate in premium conversion, their FEHB enrollment must be transferred from their retirement system to the employing agency. Each agency was asked to submit information on their reemployed annuitants whose annuity is paid under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) to OPM so we can transfer FEHB enrollment back to your agency. We ask that you coordinate with your payroll office to make sure that these enrollments are transferred in no later than the day before the first pay period that begins on or after October 1.

A number of other Federal retirement systems maintain FEHB enrollment information and deduct FEHB premiums from annuity checks. Some annuitants who have retired under one of these systems 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.

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, you must contribute the employer share of the FEHB premium for all reemployed annuitants that are enrolled in the FEHB as employees. The agency contribution for reemployed annuitants will be remitted to OPM in the same manner as that for other employees.

### **How much will Federal employees save?**

Based on information from the Department of the Treasury, the *average* Federal employee who participates in the FEHB Program will pay \$434 less per year in Federal income, Social Security and Medicare taxes. In many jurisdictions, state and local income taxes will also be reduced. The website includes a formula for employees to calculate their own savings, as well as some examples.

### **How much will Agencies save?**

Agencies will save the employer share of the Medicare tax and the employer share of Social Security contributions when applicable for each employee who participates in premium conversion.

### **How do Federal employees enroll?**

Participation in premium conversion is automatic. Employees need to complete a form only if they wish to opt-out or waive participation in premium conversion.

### **Can an employee choose not to participate in premium conversion?**

Yes, but the employee needs to opt-out, or waive participation in premium conversion. We are attaching a sample waiver form for your agency to make available to employees. A form will also be available on Employee Express. Employees who want to opt-out must file a waiver form with you by the date you set, but not later than the day before the effective date of coverage.

### **Why would anyone not want the tax-savings?**

There are two potential reasons: 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 exceptions. Employees who choose to waive premium conversion retain the flexibility, *without giving any reason whatsoever*, either to drop FEHB coverage altogether or change from a self and family enrollment to self only at any time. Employees who are participating in premium conversion will be allowed to drop coverage, or change to self only, only during open season or if the decision to do so comes at the time of a “qualifying life event,” such as marriage. This flexibility is generally of little or no value compared to the tax savings of premium conversion.

***Social Security.*** Premium conversion may result in somewhat lower Social Security benefits for those Federal employees who pay Social Security taxes on salary. Therefore, in rare situations, it

may be advantageous to pay full Social Security taxes rather than the lower Social Security taxes. These rare cases do not involve employees covered by the CSRS or the CSRS-Offset plan. Employees who are covered by the FERS and pay no Federal income taxes may wish to investigate further.

For most people, the benefit of having more take-home pay far outweighs the slightly lower Social Security retirement benefit. However, it's a personal decision that must be made by each employee.

**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.

**Is this an ongoing benefit?**

Yes, once an employee participates in premium conversion, the participation continues automatically unless an employee elects not to participate. Each year during FEHB Open Season Federal employees may decide whether or not to participate for the following year.

**Can employees change their premium conversion participation status?**

Employees may change their participation in premium conversion during the annual FEHB open enrollment period, or during the calendar year if they experience a qualifying life event. Qualifying life events include marriage, or a change in a spouse's employment, and are explained in more detail on the web site.



Abby L. Block, Chief  
Insurance Policy  
and Information Division

Attachments

## 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](http://www.opm.gov), or you may call the Human Resource Office at \_\_\_\_\_.

***PREMIUM CONVERSION FINANCIAL WORKSHEET***

Use the following worksheet to estimate your annual tax savings with premium conversion, and to estimate the effect of premium conversion on Social Security retirement benefits.

**Part One** Taxable salary.

1. Enter your current annual salary.	
2. Enter your annual FEHB premium payment (biweekly premium payment multiplied by 26).	-
3. Subtract #2 from #1. This is your taxable salary with premium conversion.	

**Part Two** Tax savings.

1. Enter your annual FEHB premium payment (as entered in Part One, #2).	
2. Enter the sum of: (a) Your Federal income tax bracket (0.0, 0.15, 0.28, etc.), and (b) Social Security tax (0.062), if applicable to you, and (c) Medicare tax (0.0145).	x
3. Multiply #1 by #2. This is an estimate of the annual amount of tax you avoid with premium conversion.	=

Note: Additional savings on State and local income taxes, if any, are not included for the purpose of simplifying this estimate.

Continue with Part Three of this worksheet if you are covered by the Federal Employees Retirement System or by Social Security only. Part Three should not be used by employees covered by either the Civil Service Retirement System (CSRS) or the CSRS-Offset System. Employees covered by CSRS are not subject to Social Security tax and people covered by the CSRS Offset plan receive a higher annuity from OPM if their Social Security benefit is reduced.

**Part Three** An estimate of the annual gain in Social Security benefits at retirement (in today's dollars) when you waive participation in premium conversion.

To complete this part, you must access the Social Security Administration web site, [www.ssa.gov](http://www.ssa.gov), using the Instructions on the next page. If you do not have access to the Internet, your Human Resources office can help you.

1. Use the instructions entitled "Using the SSA Web Site Calculator." Enter your estimated monthly Social Security benefit at retirement (Step 5) WITHOUT premium conversion.	
2. Use the instruction entitled "Using the SSA Web Site Calculator." Enter your estimated monthly Social Security benefit at retirement (Step 7) WITH premium conversion.	-
3. Subtract #2 from #1. This is the difference in Social Security retirement benefits.	
4. Multiply #3 by 12.	X 12
5. This is the estimated annual Social Security benefit increase over a 35-year career.	
6. Divide by 35	÷ 35
7. This is the estimated Social Security benefit you earn for each year you waive premium conversion.	=
8. Enter the annual amount of tax you save with premium conversion from Part Two, #3.	
9. Divide the amount in #8 by the amount in #7.	
10. Estimated years of Social Security retirement benefits needed to make up for the additional taxes you paid by not participating in premium conversion. Because most people receive Social Security for about 20 years, you may want to consider waiving premium conversion if this number is less than 20.	=

Note: when you reduce your taxable salary by your annual health benefits premium in the SSA benefit calculator, the model assumes a different salary over your entire career (35 years for Social Security benefit calculation purposes).

***Using the SSA Web Site Calculator to Complete Part Three:***

Step 1	Go to <a href="http://www.ssa.gov/retire">www.ssa.gov/retire</a> on your internet.
Step 2	The first box in the left-hand column menu is labeled "Calculators." Use your mouse to click on this box.
Step 3	A new screen will appear with three boxes in the center. Use your mouse to click on the first box, "1. Quick."
Step 4	Follow the instructions on how to use the calculator. You will need to use this calculator twice (Steps 5 & 7).
Step 5	Enter your age, current salary, and select the "Today's Dollars" option in the menu list for the third item on the calculator. Click on the button "Submit Request" and a calculation will appear. Enter the figure for your estimated monthly Social Security benefit in Part Three, #1.
Step 6	Use the "Back" button on your browser to return to the calculator.
Step 7	Enter your age, salary with premium conversion (Part One, #3), and select the "Today's Dollars" option in the menu list for the third item on the calculator. Click on the button "Submit Request" and a calculation will appear. Enter the figure for your estimated monthly Social Security benefit in Part Three, #2.

<b>Federal Employees Health Benefits Program (FEHB) Premium Conversion Waiver/Election Form</b>
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<b>Purpose of This Form</b>
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*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.*

<b>I. PARTICIPANT INFORMATION</b>			
Last Name	First Name	MI	SSN
Agency/Bureau Name	Agency/Bureau Address		Office phone
<b>II. ELECTION TO WAIVE PARTICIPATION IN PREMIUM CONVERSION</b>			
<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			
<b>III. ELECTION TO RESTORE PARTICIPATION IN PREMIUM CONVERSION</b>			
<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			
<b>IV. TO BE COMPLETED BY PAYROLL/PERSONNEL STAFF</b>			
Approved <input type="checkbox"/> Disapproved <input type="checkbox"/> Effective Date: MM/DD/YYYY			
Authorized agency official:      -----      ----- <div style="display: flex; justify-content: space-around; width: 100%;"> <span>Signature</span> <span>Date</span> </div>			

**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.

# Instructions for Completing the FEHB Premium Conversion Election/Waiver Form

**Use this form to** Waive premium conversion and the pre-tax treatment of FEHB premiums  
Restore premium conversion if previously waived

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**Do not use this form to** 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

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**Who May Use This Form** Employees who are eligible for pre-tax treatment of their FEHB premiums

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**General Information** Further information on premium conversion may be obtained on the OPM website:  
[www.opm.gov](http://www.opm.gov)

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## Effective Dates

### **For Waivers**

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.

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.

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.

Your decision will continue indefinitely unless you later submit a new election/waiver form to change the tax treatment of your contributions to FEHB.

### **For Restorations**

*IRS Guidelines—Restrictions on Changing Health Benefits Coverage (Pre-tax Treatment)*  
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.

If your change is allowed, it will be effective the first full pay period after this form is received by your employing office.

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### **Qualifying Life Events (QLEs)**

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.

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.

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.