



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

Number: 01-313

Date: March 30, 2001

Subject: Correction of Administrative Errors – Health Benefits Premium Conversion

We have received many inquiries from agencies about the impact on tax withholdings of incorrect FEHB deductions, when the affected employee is a participant in Health Benefits Premium Conversion (HB-PC). The four most common scenarios that have been offered can be classified as follows:

- ◆ An election to cancel FEHB enrollment that is not processed.
- ◆ An election to enroll in the FEHB enrollment that is not processed.
- ◆ An employee is incorrectly enrolled in a more-expensive plan.
- ◆ An employee is incorrectly enrolled in a less-expensive plan.

In this letter, we provide an illustration of each scenario, along with the probable corrective action. You will note that the effect of each corrective action on taxable income in the following scenarios is *prospective*.

In the following illustrations, for simplicity, Federal income taxes and FEHB contributions are the only withholdings from gross pay and the employee is a participant in HB-PC. Of course in reality, Medicare, Social Security for FERS and CSRS Offset, and state income taxes may also be affected.

<i>Pay Period</i>	26	1	2	3
<i>Begins</i>	12/18/05	1/1/06	1/15/06	1/29/06
<i>Ends</i>	12/31/05	1/14/06	1/28/06	2/11/06
<i>Pays</i>	1/9/06	1/24/06	2/7/06	2/21/06

<i>Civil Service Retirement System</i>	<i>Federal Employees' Group Life Insurance Program</i>	<i>Federal Employees Health Benefits Program</i>	<i>Federal Employees Retirement System</i>	<i>Long Term Care Insurance Program</i>
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CANCELLATION OF FEHB ENROLLMENT NOT PROCESSED

Windy Crawford has gross pay of \$2,000 and is enrolled in a FEHB plan with biweekly withholdings of \$300. Ms. Crawford experiences a qualifying life event and submits a SF-2809 to cancel her FEHB enrollment, effective on the first day of pay period 26. Unfortunately, her action is not processed timely and the \$300 IS deducted for pay period 26.

To correct this, Ms. Crawford's cancellation of her FEHB enrollment is made retroactive to pay period 26. In pay period 1, her payroll office "refunds" the \$300 in FEHB deductions to Ms. Crawford, by including it in her gross pay.

Thus, Ms. Crawford's "gross-to-net" for pay periods 26 and 1 is:

	Pay Period 26	Pay Period 1
Gross Pay	2,000	2,300
FEHB (pre-tax)	300	0
Pay subject to Federal taxes	1,700	2,300
Federal taxes withheld @20%	340	460
Net Pay	1,360	1,840

FEHB ENROLLMENT NOT PROCESSED

Kathy Dean has gross pay of \$2,000. Ms. Dean submits a SF-2809 to enroll in a FEHB plan with biweekly deductions of \$300, effective on the first day of pay period 2. Her enrollment action, however, is not processed timely and the \$300 is not deducted from her pay until pay period 3.

To correct this, Ms. Dean's FEHB enrollment is made retroactive to pay period 2 and her payroll office deducts \$600 [double] in pay period 3 on a pre-tax basis.

Thus, Ms. Dean's "gross-to-net" for pay periods 2 and 3 is:

	Pay Period 2	Pay Period 3
Gross Pay	2,000	2,000
FEHB (pre-tax)	0	600
Pay subject to Federal taxes	2,000	1,400
Federal taxes withheld @ 20%	400	280
Net Pay	1,600	1,120

INCORRECT ENROLLMENT IN MORE EXPENSIVE FEHB PLAN

Martha Vasquez has gross pay of \$2,000 and FEHB deductions of \$300. During pay period 2, it is discovered that her agency mistakenly enrolled her in the wrong FEHB plan in pay period 1. The plan in which she should have been enrolled has biweekly premium withholdings of only \$250.

To correct this, Ms. Vasquez's enrollment in the correct plan is made retroactive to pay period 1. Her payroll office "refunds" \$50 to Ms. Vasquez in pay period 2, by including it in her gross pay.

Ms. Vasquez's "gross-to-net" for pay periods 1 and 2 is:

	Pay Period 1	Pay Period 2
Gross Pay	2,000	2,050
FEHB (pre-tax)	300	250
Taxable income	1,700	1,800
Federal taxes withheld @20%	340	360
Net Pay	1,360	1,440

INCORRECT ENROLLMENT IN LESS EXPENSIVE PLAN

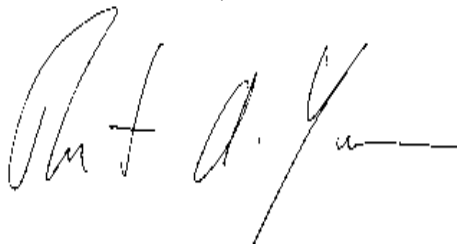
John Landers has gross pay of \$3,000. During pay period 2, it is discovered that he was enrolled in the wrong FEHB plan in pay period 1. The plan in which he should have been enrolled has employee deductions of \$500, rather than the \$200 that has been deducted.

To correct this, Mr. Landers' enrollment in the correct plan is made retroactive to pay period 1. His payroll office deducts \$800 in pay period 2 [the regular deduction of \$500, plus the \$300 "under-withholding"] on a pre-tax basis.

Mr. Landers' "gross-to-net for pay periods 1 and 2 is:

	Pay Period 1	Pay Period 2
Gross Pay	3,000	3,000
FEHB (pre-tax)	200	800
Taxable income	2,800	2,200
Federal taxes withheld @20%	560	440
Net Pay	2,240	1,760

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



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