HIDOD Personnel Fast Facts 2010-02 **7 October 2010**

Health Benefits Premium Conversion (HB-PC)

1. **What is Premium Conversion?** Premium conversion is a tax benefit. It reduces your taxable income by the amount of your health insurance premium. Since your health insurance premium will be deducted from "pre-tax" dollars, it will not be considered gross income for tax purposes. As a result, you will pay less Federal, State, Social Security and Medicare taxes resulting in more take home pay. The Federal Government will still pay the Government's share of the health insurance premium. Your premium will not be affected. Paying the health insurance premiums on a pre-tax basis will make the Federal Employees Health Benefits (FEHB) coverage more affordable for Federal employees.

2. **Who is eligible?** Technicians enrolled in the FEHB program.

3. **How much will I save?** You save a percentage of your premium. 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, State, Social Security and Medicare taxes.

4. **Do I have to pay a tax later?** No. Don't confuse premium conversion with the deferred taxation of the Thrift Savings Plan contributions, which are taxed when you receive the money.

5. **Why would anyone not want to participate in premium conversion and receive the tax savings?** It's possible but *extremely* unlikely. The potential reasons fall under two headings--Flexibility and Social Security.

a. Flexibility. A Federal employee participating in premium conversion generally has all the same flexibility as a person who chooses not to participate. However, because of the tax laws, that there are two exceptions:

(1) If you choose to *waive* premium conversion, you will have the flexibility, without giving any reason whatsoever, to either cancel your FEHB coverage altogether or change from a self and family enrollment to a self-only enrollment at any time.

(2) If you are *participating* in premium conversion, you will be allowed to drop coverage or change to a self-only enrollment, **ONLY** during the annual FEHB open season **OR** if the decision to do so comes at the time of a "qualifying life event." Qualifying life events (QLE) include changes in family status (i.e., marriage, birth of child, divorce, etc.); changes in a spouse's employment; or entering a period of unpaid leave (LWOP) for more than 31 days.

This flexibility is generally of little or no value compared to the tax savings of premium conversion.

b. 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 rare 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 taxes, you 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 you alone.

6. **Will premium conversion have any effect on CSRS, FERS, TSP or FEGLI benefits?** No. Participation in premium conversion will have no impact on these benefits since they are based on "unadjusted" gross income.

7. **How do you enroll?** Participation is "**automatic**" at the time you enroll in the FEHB program. However, you do have a choice to waive premium conversion despite the savings. It's a personal decision. To waive participation, complete the enclosed FEHB Premium Conversion Waiver/Election Form within 60 days of your enrollment in the FEHB and forward to the Human Resources Office (HRO) for processing. *Reminders:*

(1) If you participate in premium conversion, you cannot change to a self-only enrollment or cancel at anytime. You must have a QLE or wait until the annual FEHB open season to make a change.

(2) If you participate in the Federal Employees Dental and Vision Insurance Program (FEDVIP), you cannot waive premium conversion because you agree to pay your FEDVIP premium on a pre-tax basis.

8. **Will this be a permanent benefit?**

a. Yes, once you participate in the premium conversion program, the participation continues automatically unless you elect to waive it. Each year during the FEHB open season, you will have an opportunity to decide whether or not you still want to participate for the following year. If you decide you want to waive OR, if you had previously waived your participation and want to participate again in the program, you will need to complete the enclosed FEHB Premium Conversion Waiver/Election Form and forward it to the HRO for processing.

b. If you experience a QLE and want to change your participation in premium conversion, you must also complete the enclosed FEHB Premium Conversion Waiver/Election Form and forward it to the HRO for processing.

c. Enrollment or participation in premium conversion ends if you separate or are terminated from Federal employment. If you are eligible and elect to participate in the Temporary Continuation of Coverage (TCC) program when you separate, you will pay those health insurance premiums directly on an after-tax basis. In addition, the premium conversion benefit does not carry into retirement. Annuitants will also pay their health insurance premiums directly on an after-tax basis.

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

9. **Where can I get more information?** Visit the Office of Personnel Management's web site at: http://www.opm.gov/insure/health/reference/premconversion/index.asp for up-to-date information and list of Frequently Asked Questions (FAQs).

For questions or more information, please contact Catrecia Lewis, Human Resources Specialist, at 672-1236.

Encl
HB-PC Waiver/Election Form