

## ***PREMIUM CONVERSION INFORMATION***

Updated 29 Dec 03

### **What is Premium Conversion?**

Premium Conversion is a “pre-tax” arrangement, meaning that the part of your salary that goes for Federal Employee Health Benefits (FEHB) insurance premiums will become non-taxable. This means that you will 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. And because this before-tax arrangement lowers your taxable income, your take-home pay will be slightly higher. Participation in premium conversion is automatic. If you don’t want to participate, you must submit a waiver.

### **Why would I not want the tax savings available by participation in Premium Conversion?**

In most cases you will want the tax savings. However, you should give serious consideration to waiving participation in premium conversion if you pay no Federal income tax, or earn less than \$6,400 per year. Other potential reasons for not participating 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 tax laws, there are two exceptions. If you *waive* participation in premium conversion, you will have the flexibility, *without giving any reason whatsoever*, either to cancel your health insurance altogether or change from a self and family enrollment to self only at any time. If you elect to participate in premium conversion, you may make these changes **only** during the Federal Employees Health Benefits (FEHB) annual Open Season or upon a qualifying life event, *if* the reason for the change is on account of and consistent with the qualifying life event. 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 under 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. However, for most individuals, the benefit of having more take-home pay will outweigh the slightly lower Social Security benefit.

### **I don’t know if I am currently participating in Premium Conversion; how can I tell?**

If you are currently participating in premium conversion, the remark “Pretax FEHB Exclusion” with the amount of your biweekly Federal Employees Health Benefits (FEHB) premium will appear in the Remarks section of your Leave and Earnings Statement.

### **How do I enroll or waive participation in Premium Conversion election; is there a time limit?**

Opportunities to waive and elect participation in premium conversion are limited to the Federal Employees Health Benefits (FEHB) annual Open Season, the initial opportunity to enroll, and experiencing a qualifying life event (QLE).

### ***FEHB Open Season***

You may waive participation in premium conversion, or elect to begin participating (also called canceling a waiver), during the annual health insurance open season without having to provide a reason for doing so. Whether electing to participate or waiving participation, the Premium Conversion Waiver/Election form **must** be received by the Benefits and Entitlements Service Team (BEST) **during** the open season. If you are conducting a health insurance enrollment/change AND changing your premium conversion election, you must fax the Waiver/Election form to BEST at the same time you use the automated web or phone system to make your enrollment/change.

### ***Initial Opportunity to Enroll***

Newly hired, rehired, and newly eligible Federal employees are allowed 60 days from date of appointment or date of becoming eligible to enroll in health insurance and make a premium conversion election. If you enroll in health insurance but do NOT want to participate in premium conversion, you must complete the Premium Conversion Waiver/Election form and fax to BEST at the same time you use the automated web or phone system to conduct your enrollment. If you want to participate in premium conversion, do nothing – participation is automatic.

### ***Experiencing a Qualifying Life Event***

You may change your premium conversion election if you experience a qualifying life event. You may elect to participate, or waive participation. The Premium Conversion Waiver/Election form must be faxed to arrive at BEST not later than 60 days after the qualifying life event.

### ***Reemployed Annuitants***

If you have health insurance coverage through the Office of Personnel Management (OPM), and are reemployed in an appointment that conveys health insurance coverage, your coverage will be transferred from OPM to the employing agency if you decide you wish to participate in premium conversion. If you do NOT want to participate in premium conversion, you must complete and fax the Premium Conversion Waiver/Election form to BEST within 60 calendar days of becoming reemployed.

If you are reemployed on a part-time schedule, there are a number of factors for you to consider. Part-time employees are not eligible for the full government contribution, but the entire employee contribution will be pre-tax if you participate in premium conversion. That larger reduction in taxable income might offset the lower government contribution. If you are a part-time reemployed annuitant, you'll need to do some calculations to determine which situation is more beneficial for you. You may also want to consult a qualified tax advisor.

### ***What are Qualifying Life Events?***

A qualifying life event (QLE), as defined by the Office of Personnel Management (OPM) and the Internal Revenue Service (IRS), is an event that will allow you to change your health insurance enrollment **or** premium conversion election **outside** of an open season. If you are participating in premium conversion, you cannot cancel your health insurance enrollment or

change from family coverage to self only outside of an open season **unless** you have a qualifying life event. Examples of qualifying life events include, but are not limited to, marriage, birth or death of a family member, adoption, legal separation, divorce, certain changes in employment status, and transfer from a post of duty within the U.S. to a post of duty outside the United States, or reverse.

In addition, there are certain events that will allow you to change your premium conversion participation (election) but not your health insurance enrollment. These additional events include, but are not limited to: changes in entitlement to Medicare or Medicaid for you, your spouse, or dependent; start of an unpaid leave of absence by you, your spouse, or your dependent; your spouse or dependent is employed in a position that offers health insurance; start of your spouse's employment; change in your employment status or that of your spouse or dependent from either full-time to part-time or the reverse; or significant change in the cost or conditions of your spouse's health care coverage related to your spouse's employment that affect you.

Are you or your spouse retired military? If you are participating in premium conversion, enrollment in Tricare or Tricare for Life is **not** a qualifying life event that would allow you to cancel your health insurance or change from self and family to self only outside of the annual health benefits open season.

**I changed my Premium Conversion election due to a qualifying life event; do I have to provide evidence of the qualifying life event?**

As with any health insurance enrollment, you may be asked to provide evidence of the qualifying life event. Failure to do so may result in your election being voided.

**Where can I find additional information about Premium Conversion and Qualifying Life Events?**

Additional information is available on the Office of Personnel management (OPM) Premium Conversion Web page at [www.opm.gov/insure/health/pretaxfehb/index.htm](http://www.opm.gov/insure/health/pretaxfehb/index.htm). OPM also developed a Premium Conversion Financial Worksheet for computing tax savings and estimating the effect of premium conversion on Social Security benefits. To find the worksheet, click on [www.opm.gov/asd/htm/2000/00-215.htm](http://www.opm.gov/asd/htm/2000/00-215.htm). This link will take you to Benefits Administration Letter 00-215. Scroll to the bottom of the letter, find "Download Attachment 2," and click on either PDF or Word.

**Where can I find the Premium Conversion Waiver/Election form?**

The Premium Conversion Waiver/Election form is located on the Benefits and Entitlements Service Team (BEST) Web site at [www.afpc.randolph.af.mil/dpc/best/fehb.htm](http://www.afpc.randolph.af.mil/dpc/best/fehb.htm). You can also obtain it by calling the BEST phone line. Once you access the phone system, go to the benefits main menu, press "6" for fax documents, and request document 1005.

**Where do I send my completed Premium Conversion Waiver/Election form?**

Fax your completed waiver/election form to BEST at DSN 665-2936 or (210) 565-2936.

**When will my Premium Conversion election/waiver go into effect?**

An election submitted during Open Season will be effective at the beginning of the first full pay period in January. All other elections are effective at the beginning of the pay period after the one in which received.

**Who can I talk to about Premium Conversion?**

We invite you to call and speak with a benefits counselor if you have questions about premium conversion, qualifying life events, or how to obtain the waiver/election form. Our toll free number is 1-800-616-3775 for all stateside callers, including those located in the San Antonio, Texas area. If calling from overseas, you'll first dial a toll-free AT&T direct access number, then 800-997-2378, except after 30 Apr 04 you'll dial 800-616-3775. AT&T direct access numbers can be obtained at [www.att.com/business\\_traveler/guides\\_and\\_access/dialing\\_instr.html#outside](http://www.att.com/business_traveler/guides_and_access/dialing_instr.html#outside). On reaching the benefits and entitlements main menu, press 1 for health insurance, then zero to transfer to a counselor.

If you are hearing impaired with access to TDD equipment, you may call TDD 1-800-382-0893, or commercial 565-2276 if calling within the San Antonio, Texas area.

Benefits counselors are available Monday through Friday, 7 a.m. to 6 p.m., Central Standard Time (CST).