



UNITED STATES OFFICE OF PERSONNEL MANAGEMENT

Washington, DC 20415

The Director

Monday, February 7, 2000

MEMORANDUM FOR: Heads Of Executive Departments And Agencies

FROM: Abby L. Block Chief Insurance Policy and Information Division

Subject: Federal Employees' Health Benefits (FEHB) Program: Premium Conversion

This letter provides advance information about new rules the Office of Personnel Management (OPM) will soon issue to permit employees of all Executive branch agencies to pay their share of enrollment costs under the FEHB Program with pre-tax dollars, and thus increase their after-tax income.

The President has directed OPM to promptly issue guidance and take all necessary action to ensure smooth implementation across the Executive branch. Similar plans are already available to the majority of employees of private sector employers and State and local governments, as well as employees of the United States Postal Service, the Federal Judiciary, and several small Federal agencies.

Section 125 of the Internal Revenue Code allows an employer to provide a portion of an employee's salary in benefits rather than cash. Instead of paying a certain amount to an employee as taxable income, the employer uses it to purchase benefits for the employee. A health insurance premium conversion plan reduces an employee's taxable income by the amount of health insurance premiums an employee would otherwise have to pay. This enables the employee to save on Federal income tax, Social Security and Medicare tax and, if applicable, State and local income taxes.

Under the Internal Revenue Code, premium conversion plans are only available to current employees and only affect the portion of insurance premium that employees normally pay. Federal agencies will continue to be responsible for the Government share of premiums as provided in the FEHB law. The tax code imposes certain limitations on reducing health plan coverage during a calendar year and premium conversion may also slightly reduce the base for Social Security benefits. Accordingly, participation in premium conversion will be automatic unless employees waive it.

We expect that the implementation of premium conversion can be completed not later than October 1, 2000. OPM will amend its rules and will prepare instructions for agency personnel and payroll offices, materials for employees, and procedures for employees who want to waive participation. The attachment to this letter provides additional information.

Attachment

Abby L. Block, Chief
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