

HUMAN RESOURCES DEPARTMENT

PREMIUM CONVERSION: AN EXTRA BENEFIT

Premium conversion is an Internal Revenue Service program that allows you to pay medical insurance premiums with pre-tax dollars or after-tax dollars.

When you pay your health and dental premiums the traditional way:

- Your gross pay is calculated first; then
- Federal, State and Social Security taxes are deducted from your gross pay (taxable income); then
- Your benefit contributions are deducted from your **after-tax** (or net) pay.

Premium Conversion - a better way to pay for benefits:

- Your gross pay is calculated first; then
- Your benefit contributions are deducted before your taxes are calculated; then
- Federal, State and Social Security taxes are calculated deducted based on the **reduced** amount.

The end result is that you pay less taxes because a portion of your pay has been “converted” to benefit contribution (premiums) on a tax-free basis. Your taxable income, and the taxes actually deducted from your pay are reduced, so your take-home pay is increased.

Here is an example:

Employee’s adjusted gross income is \$30,000 a year. This example (using close approximations of the taxes that would be deducted) shows what happens when the employee’s contributions for health care coverage is \$80 per month, or \$960 per year.

	Traditional Method	Premium Conversion Method
Employee’s Annual Gross	\$ 30,000	\$ 30,000
Annual Health Insurance	\$ 0	\$ 960
Taxable Income	\$ 30,000	\$ 29,040
Income Taxes	\$ -4,504	\$ -4,354
Social Security (FICA) Taxes	\$ -2,295	\$ -2,222
Net Pay	\$ 23,201	\$ 22,464
Annual Health Insurance	\$ -906	\$ 0
Take Home Pay (Spendable)	\$ 22,241	\$ 22,464

In this example, the employee would save \$223.00 per year by paying his health care coverage through premium conversion.



IMPORTANT INFORMATION ABOUT PREMIUM CONVERSION

Your Savings Depend on Your Circumstances

The premium conversion method of paying contributions shown in the example will work the same way for you, or for any employee who would otherwise pay his benefit contribution with after-tax dollars. The exact amount you'd save depends on your own salary, tax status and contribution amounts – but in general, payment of contributions with pre-tax dollars increases take-home pay.

Tax Considerations

- Premium conversion is allowed by the Internal Revenue Code (U.S. tax laws). Benefit contributions made through premium conversion in accordance with IRS regulations are not taxed. Paying your contributions in this way generally does not affect the way you file your income taxes. However, you should be aware that you cannot include un-taxed benefit contributions as an expense if our medical expenses are high enough to use them as a deduction on your tax return.
- As shown in the example, when taxable income is reduced, Social Security taxes decrease. This means that Social Security benefits at retirement may be slightly less than they would be otherwise. However, the money that you save now by paying for your benefits on a tax-free basis will generally more than offset a reduction in Social Security benefits later.

Changing Your Decision

You can change your decision about premium conversion once each year, during open enrollment period. If you participate in premium conversion now, you can change your decision during the next annual enrollment period. Similarly, if you do not participate now, you can join the plan at that time.

It is important to know that, because of the tax advantages of premium conversion, federal law places restrictions on changing your decision at other times during the year. For this reason, if you participate in premium conversion, you are generally not allowed to cancel or change your coverage until the next annual enrollment period. The exception to this is if you have a “qualifying event” (family status change, employment status change, etc.) and make other changes to your health and/or dental plans.

A Better Way to Pay

We are pleased to offer you the opportunity to participate in the premium conversion program at this time. We think you'll agree that premium conversion is a better way to pay for your benefits.

(If you do not make a choice to participate in premium conversion, any health and/or dental premiums will be deducted post-tax.)

