



NRLCA FACT SHEET

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Premium Conversion **Use of Pre-Tax Annuities for FEHBP Premiums**

During the 111th Congress, Sen. Jim Webb (D-VA) and Rep. Chris Van Hollen (D-MD) have introduced S. 491 and H.R. 1203, which would allow federal and postal retirees to use pre-tax dollars to pay their Federal Employee Health Benefits Program (FEHBP) insurance premiums, much like active federal and postal employees have the option of doing.

Since 1998, Federal Employees Health Benefits Program premiums have increased by nearly 10 percent per year, while cost-of-living adjustments (COLAs) for annuitants have increased by an average of just over 2.5 percent.

Currently, federal retirees pay for their share of FEHBP premiums with after-tax funds from their annuities. Before they retire, however, postal and federal employees (and many private sector employees) can take advantage of "premium conversion." Section 125 of the Internal Revenue Code allows them to pay for their health insurance with pre-tax dollars. Once the federal or postal employee retirees, they lose this benefit. The Webb and Van Hollen bills would change this situation so that retired postal and federal employees would have the same opportunity as those on the active duty rolls.

This process of paying with pre-tax dollars has the same effect as an individual retirement account. A retiree's taxable income would be reduced by the amount they paid for their health insurance premiums. The Office of Personnel Management (OPM) estimates that premium conversion saves the average federal or postal retiree \$820 per year in reduced federal income tax, Social Security, and Medicare taxes. This amount may not sound like a lot, but every little bit helps when living on a fixed income.

NRLCA Position

NRLCA believes that it is essential for federal and postal retirees to be allowed to use their pre-tax dollars to pay for health premiums, especially with the increasingly high cost of insurance and prescription drugs.

We urge members of the Senate to cosponsor S. 491 and members of the House to cosponsor H.R. 1203.

Contact Paul Swartz (Senate) or Kevin Talley (House) if you have any questions or would like more information on this issue.