

## Summary of Premium Conversion

### Would you like to give yourself a raise? You can with a payment plan that puts tax dollars back in your pocket.

Without this payment plan, your insurance premium contributions will be deducted from your paycheck after taxes.

Ferrum College's payment plan allows you to have your contribution for insurance benefits deducted from your pay before taxes. This reduces your taxable income, so you will pay less in taxes. Because you are paying less in taxes, your take-home pay will be higher than it would be if your contribution were made after taxes.

This payment plan is called Premium Conversion – converting your premium payments to before-tax dollars.

### How does Premium Conversion work?

Here's an example: Let's look at the monthly paycheck for an employee who earns \$15,000 a year. Gross pay (before any deductions) is \$1,250 a month. For this example, the employee contributes \$80 a month towards health coverage.

	<u>Without Premium Conversion</u>	<u>With Premium Conversion</u>
<b>Gross Salary</b>	\$1,250.00	\$1,250.00
Health Premium Contribution	- 0.00	- 80.00
<b>Taxable Income</b>	<b>\$1,250.00</b>	<b>\$1,170.00</b>
Federal & State Taxes	- 107.50	- 91.50
Social Security Taxes (FICA)	- 93.88	- 87.87
<b>Net Pay</b>	<b>\$1,048.62</b>	<b>\$ 990.63</b>
Health Premium Contribution	- 80.00	- 0.00
<b>Spendable Income</b>	<b>\$ 968.62</b>	<b>\$ 990.63</b>

In this example, the employee saved \$22.01 a month (spendable income increased by \$22.01) for a savings of \$264.12 a year by using premium conversion.

### Is Premium Conversion Right for me?

Premium Conversion works for any employee who contributes towards insurance benefits. The example we've given is just an illustration. Your own savings will depend on your earnings, tax status, and the level of your contribution. But if you contribute, and you contribute before your pay is taxed, your taxes will decrease and your spendable income will increase. You will see additional dollars in your pocket.

Please note from our example that when taxable income is lowered, social security taxes are also lowered. This may result in a slight reduction in social security benefits at retirement.

### Can I change my mind later?

You can change your decision once each year during our open enrollment (currently the month of March). If you choose not to 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. Nevertheless, you may do so at any time if certain qualifying events occur. The only requirement is that the change you make must be consistent with the particular event that has occurred.

### Some events that permit you to make a change

- Marriage, divorce, death of a spouse, legal separation or annulment;
- Change in the number of dependents, including birth, adoption, placement for adoption, or death of a dependent;
- Any of the following events for you, your spouse or dependent: Termination or commencement of employment, a strike or lockout, commencement or return from an unpaid leave of absence, a change in worksite, or any other change in employment status that affects eligibility for benefits;
- One of your dependents satisfies or ceases to satisfy the requirements for coverage due to change in age, student status, or any similar circumstance; and
- A change in the place of residence of you, your spouse or dependent.
- Significant changes in the insurance benefits provided by your spouse's employer, whether the benefits are for you or your spouse.

**Will this affect the way I file my income taxes?**

Making your contribution towards your insurance coverage before taxes is allowed under Section 125 of the Internal Revenue Service (IRS) Code. These contributions are not taxed if they are payroll-deducted following IRS regulations.

This method of deducting your contributions before taxes will not affect the way you file your taxes unless your health care expenses are high enough to allow you to take a deduction on your personal tax return. Then, you would not be able to include premium contributions that had not been taxed.

**This payment plan can save you money.**

We are pleased to offer this benefit option. Participate now, and start putting tax dollars back in your pocket.