

**BY ORDER OF THE SECRETARY  
OF THE AIR FORCE**

**AIR FORCE INSTRUCTION 34-307**

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*Services*



**NONAPPROPRIATED FUND  
FLEXIBLE BENEFITS PLAN**

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This publication implements AFPD 34-3, *Nonappropriated Funds Personnel Management and Administration*, for the AF Nonappropriated Fund (AFNAF) Flexible Benefits Plan (FBP). It gives the requirements and procedures for managing and administering the Air Force Nonappropriated Fund (AFNAF) Flexible Benefits Plan (FBP) and provides guidance for pre-tax or after-tax health and dental insurance contribution payments. In addition, this instruction aligns with AFI 34-305, *Nonappropriated Fund Group Health Plans* and adds references to the Department of Defense Health Benefits Program (DoD HBP) and DoDI 1400.25, Volume 1408, which outlines the policies and procedures applicable to coverage under the DoD HBP. It requires the collection and maintenance of information protected by the Privacy Act of 1974 authorized by Title 10, United States Code, Section 8013. System of records notice 065 AF SVA B, AFNAF Employee Insurance and Benefits System File, applies. This instruction does not apply to active duty military, Air National Guard, or Air Force Reserve members. This AFI may be supplemented at any level, but all supplements that directly implement this publication must be routed to AF/A1S for coordination prior to certification and approval. Refer recommended changes and questions about this publication to the Office of Primary Responsibility (OPR) using the AF Form 847, *Recommendation for Change of Publication*; route AF Form 847s from the field through the appropriate functional's chain of command. Ensure all records created as a result of processes prescribed in this publication are maintained in accordance with Air Force Manual (AFMAN) 33-363, *Management of Records*, and disposed of in accordance with the Air Force Records Disposition Schedule (RDS) located at <https://www.my.af.mil/afrims/afrims/afrims/cfm>.

## ***SUMMARY OF CHANGES***

This document has been substantially revised and must be completely reviewed. Major changes include: Management and administration to include actions of the Shared Service Center (SSC) that processes collection of employee and employer contributions; Human Resource Office responsibilities which expands discussion of Internal Revenue Service (IRS) restrictions on FBP plans; Electing Group Health/Dental Coverage and FBP benefit elections which lists forms to use for electing the FBP option; Explaining the restrictions and duration of an employee's FBP election with respect to being unable to return to post-tax contributions for the plan year unless employee is having a life-qualifying event as determined by the IRS; HQ AFSVA SSC responsibilities which discusses how SSC transactions are processed to adjust an employee's tax base for income tax purposes.

**1. Definition.** The FBP was established under the provisions of the Internal Revenue Code (IRC), Title 26, United States Code, Section 125 document. Participation in the FBP is voluntary.

**2. Purpose.** The FBP gives active AFNAF employees enrolled in the DoD HBP or the Stand Alone Dental (SAD) Plan the option to pay their group health/dental contributions with pre-tax dollars. By electing the FBP pre-tax option, employees redirect a portion of their gross salary to pay for group coverage under the DoD HBP or the SAD Plan. The salary portion, which is redirected, is not subject to federal income tax, social security tax, Medicare tax, or state income tax.

### **3. Management and Administration.**

3.1. Headquarters, Air Force Services Agency (HQ AFSVA) manages the FBP. The Plan Administrator is the HQ AFSVA Insurance Branch who executes the FBP, publishes and distributes information related to the FBP, and also coordinates with HQ USAF/JAA-S (Legal Office) on various legislative or technical issues concerning the FBP, when required. This AFI outlines the general rules of the FBP.

3.2. The Human Resources Office (HRO) performs base-level administration as instructed in this AFI and in conjunction with AFI 34-305, the DoD HBP Policy, and the HQ AFSVA Insurance Branch.

3.2.1. DoD HBP Policy Document. For DoD HBP Policy guidance, refer to DoDI 1400.25, Volume 1408, *DoD Civilian Personnel Management System: Insurance and Annuities for Nonappropriated Fund (NAF) Employees*. The electronic version is available on DoD's website at <http://www.cpms.osd.mil>.

3.3. The HQ AFSVA Shared Service Center (SSC) Payroll Branch processes the collection of employee and employer contributions under the DoD HBP or the SAD Plan associated with FBP participation as instructed by AF Services Financial Management System (AFSFMS) payroll procedures, this AFI, and AFI 34-305.

**4. Obtaining Information.** HROs should forward technical questions, requests for additional supplies and information, and comments pertaining to the management and administration of the FBP to the HQ AFSVA Insurance Branch.

**5. HRO Responsibilities.** HROs administer the FBP as instructed in this AFI, and in conjunction with appropriate sections of AFI 34305 (e.g., group health/dental plan enrollments, changes in coverage, or cancellations), and the DoD HBP Policy.

5.1. Determine Eligibility for Participation. Participation in the FBP is restricted to active AFNAF employees enrolled in either the DoD HBP or the SAD Plan. AFNAF Group Life Plan participants and former employees/retirees enrolled in continuing coverage under the Post-Retirement Medical and Dental Program are excluded.

5.2. Counsel Potential FBP Participants. Describe the FBP provisions and answer related questions so employees can make an informed decision about enrolling in the plan. Copy and give [Attachment 2](#) to the employee and discuss the information as follows:

5.2.1. Ensure the employee understands the IRS restrictions for changing or canceling FBP and coverage elections under the DoD HBP or the SAD Plan ([Attachment 2](#)), as well as the FBP summary information ([Attachment 3](#)). Advise the employee that he/she will be responsible for accuracy of deductions and timely reporting of errors or status changes on his/her Leave and Earnings Statement (LES) to the HRO for prompt resolution.

5.2.2. Duration of FBP Election. Ensure employees are aware of the duration of their FBP election: advise them their FBP election remains in effect until they change their payment method (tax election) during an annual FBP Open Enrollment Period or within 31-days after a valid change in family status, or they lose eligibility or cancel coverage under the DoD HBP or the SAD Plan. *Note:* Contact the HQ AFSVA Insurance Branch for special guidance if for any reason an employee is unable to meet the above 31-day period for changing or canceling FBP and coverage elections following a family status change.

5.2.3. An employee's ultimate Social Security Award at retirement may be reduced slightly. The reason for this is, Social Security benefits are based on lifetime earnings, which are subject to FICA (Federal Insurance Contributions Act) taxes--and the amount of an employee's earnings is slightly reduced when paying group health/dental contributions with pre-tax earnings.

5.2.4. A FBP participant may not deduct group health plan contributions on his/her individual income tax return.

**6. Eligibility for the FBP.** The AFI establishes the eligibility criteria for participation in the FBP. Only active AFNAF employees enrolled in the DoD HBP or the SAD Plan may enroll in the FBP. AFNAF Group Life Plan participants and former employees/retirees enrolled in continuing coverage under the Post-Retirement Medical and Dental Program are not eligible for the FBP.

**7. Electing Group Health/Dental Coverage and FBP Benefit Elections.** Employees who initially elect group health/dental coverage must record their FBP benefit election (*pre-tax or after-tax contribution payment method*) on an election statement as follows: (1) For DoD HBP-related elections, complete AF Form 3558, *Election Statement--Election of Method of Payment for Group Health Insurance*; and (2) for SAD Plan-related elections, complete Form GIP-SAD-FBP, *Election Statement--Election of Method of Payment for Stand Alone Dental Insurance*. Employees who choose not to enroll in the FBP, or later disenroll from the FBP, automatically

pay contributions with after-tax earnings. File the completed FBP election statement in the employee's Official Personnel Folder (OPF). The HRO will process an employee's group health/dental and FBP benefit elections using AF Form 2545, *NAFI Notification of Personnel Action*, in the Defense Civilian Personnel Data System (DCPDS) to start payroll deductions; use the applicable plan code provided by the HQ AFSVA Insurance Branch.

7.1. The HRO instructs the employee to thoroughly read the FBP election statement, including the paragraph outlining the plan restrictions, before electing a payment method and signing the form.

7.2. The timing and conditions of an employee's enrollment in the group health/dental plans determine the effective date of the FBP election (contribution payment method). For most employees, the pre-tax or after-tax payment method will take effect at the same time their coverage begins under the DoD HBP or the SAD Plan.

7.2.1. FBP and Group Health/Dental Elections During 31-Day Eligibility Period. For example, if an employee enrolls in the DoD HBP or the SAD Plan when first eligible (generally within the 31-day period after hire or reclassification to an eligible (*regular*) status), and he/she also elects the FBP, the FBP takes effect on the same date as the employee's coverage under the DoD HBP or the SAD Plan.

7.2.2. FBP and Group Health/Dental Elections Upon Valid Change in Family Status. If an employee elects or changes coverage under the DoD HBP or the SAD Plan upon a valid change in family status, and he/she also elects the FBP; the FBP takes effect on the same date as the employee's change in group health/dental plan enrollment.

7.2.3. If an employee previously elected *after-tax* contributions under the DoD HBP or the SAD Plan, and the person later undergoes a *qualified change in family status* during the plan year, he/she *may newly elect the FBP*. If so, the FBP takes effect on the same date as the employee's change in group health/dental plan enrollment.

7.2.3.1. For example, if an employee with single DoD HBP coverage marries, the employee may change to family coverage within 31 days of the marriage; at the same time, he/she may also elect the FBP. If so, the FBP takes effect on the same date as the employee's change to family coverage under the DoD HBP.

7.3. See separate instructions for enrolling an employee in group coverage under the DoD HBP or the SAD Plan within the initial 31-day eligibility period and for notifying the Carrier and HQ AFSVA SSC in AFI 34-305.

**8. General Information About the FBP.** If an employee initially elects not to enroll in the FBP, or if an employee's request to change to the FBP does not coincide with a valid change in family status under the DoD HBP or the SAD Plan, the employee may not enroll in the FBP until the annual FBP Open Enrollment Period. FBP elections made during the annual FBP Open Enrollment Period take effect on a date such that pre-tax contributions are deducted from the employee's first paycheck received on or after January 1st of the following year.

**9. Processing Group Health/Dental Coverage and FBP Elections within DCPDS.** After an employee makes his/her benefit elections under the DoD HBP or SAD Plan and the FBP, the HRO will process an AF Form 2545 in DCPDS to start or change payroll deductions; use the applicable plan code provided by the HQ AFSVA Insurance Branch. The HRO will file copies

of the employee's group health/dental enrollment (or change) form, FBP election statement, and personnel action in the Official Personnel Folder (OPF).

**10. Explaining the Restrictions and Duration of an Employee's FBP Election.** HROs will use [Attachment 2](#) of this AFI as a main part of their ongoing administration of the FBP. HROs will:

10.1. Use it to determine whether employees enrolled in the DoD HBP or the SAD Plan may change their elections under the FBP and/or group health and dental plans if certain life events occur.

10.2. Use it to counsel employees about the FBP restrictions and duration of their elections and provide them with an information copy for their records. Tell them they may not cancel or change their FBP election and DoD HBP or SAD coverage during the Plan Year unless they have a life-qualifying event (as defined by the IRS), or until they change their FBP election to after-tax during the annual FBP Open Enrollment Period.

10.3. If an employee's request to revoke a FBP election and change or cancel group health/dental coverage falls outside the scope of this AFI, contact the HQ AFSVA Insurance Branch for assistance.

**11. Changing or Cancelling Group Health/Dental Coverage and FBP Elections.** If an employee is allowed to change or cancel his/her participation under the FBP, complete the required election statement (*as discussed in paragraph 7*) to record the employee's new contribution payment method (tax election) with the following exception: if an employee cancels group health/dental coverage altogether, by default, this also cancels the employee's FBP election. In which case, it is not necessary to complete a FBP election statement.

11.1. The HRO will process the employee's group health/dental and FBP election change, or cancellation, using AF Form 2545 in DCPDS so payroll deductions are adjusted accordingly. Use the applicable plan code provided by the HQ AFSVA Insurance Branch. File copies of the employee's personnel action and FBP election statement in the OPF. The timing and conditions of the change or cancellation under the group health/dental plans determine the effective date of the FBP election change or cancellation.

11.2. See separate instructions for notifying the Carrier of an employee's change or cancellation of coverage under the DoD HBP or SAD Plan IAW AFI 34-305.

**12. Performing Routine Insurance Audits/Reconciling Reports.** The HRO will reconcile the biweekly group insurance enrollment/payroll deduction report generated by the HQ AFSVA SSC to ensure employees' contributions correspond with their health/dental and pre-tax or after-tax benefit elections. The payroll report should match the enrollment data in DCPDS and the employee's OPF. The HRO will correct errors in DCPDS or through the HQ AFSVA SSC or Carrier, as required.

**13. Special Instructions for Leave-Without-Pay, Military Furlough, Portability, Qualified Medical Child Support Orders or Collections/Refunds.** For employee cases involving leave-without-pay, military furlough, portability, qualified medical child support orders, or collections/refunds, use the special instructions in AFI 34-305. In accordance with AFI 34-305, the HRO will notify the HQ AFSVA SSC and the Carrier—as necessary—to enroll, change, or cancel an employee's group health/dental coverage and FBP benefit elections. The timing and

conditions of the enrollment, change or cancellation under the group health/dental plans determine the effective date of the FBP enrollment, change or cancellation.

**14. HQ AFSVA SSC Responsibilities.** The HQ AFSVA SSC processes transactions through DCPDS that adjust an employee's tax-base for income tax purposes according to pre-tax (FBP-related) or after-tax group insurance actions. The HQ AFSVA SSC also processes cancellations or changes to employee/employer group health and dental deductions, and processes any other group insurance-related actions based upon information received from DCPDS. The effective date of the personnel action determines when coverage starts, stops, or changes.

14.1. For enrollments, payroll deductions start in the same pay period that an employee's coverage is effective.

14.2. For cancellations and terminations, including discontinuance of coverage at an employee's request, do not deduct employee and employer contributions for the last pay period that coverage was in effect.

14.3. For a change which increases coverage (from single to family coverage or from medical-only to medical and dental coverage), payroll deductions for the increased coverage begin with the pay period during which the change becomes effective. The effective date of the insurance change depends on the event which prompted the employee's opportunity to increase coverage, such as a newly eligible dependent, an Open Enrollment Period, or a Special Enrollment Period due to a life-qualifying event.

14.4. For a change which decreases coverage (from family to single coverage or from medical and dental to medical-only coverage), do not deduct employee and employer contributions for the last pay period such coverage was in effect. The effective date of the insurance change depends on the event which prompted the employee's opportunity to decrease coverage, such as an ineligible dependent, death, divorce, an Open Enrollment Period, or upon the employee's request.

## **15. Prescribed and Adopted Forms.**

### **15.1. Prescribed Forms:**

AF Form 847, *Recommendation for Change of Publication*

### **15.2. Adopted Forms:**

AF Form 2545, *NAFI Notice of Personnel Action*

AF Form 3558, *Election Statement—Election of Method of Payment for Group Health Insurance*

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Lieutenant General, USAF

DCS, Manpower, Personnel, and Services

**Attachment 1****GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION*****References***

AFPD 34-3, *Nonappropriated Funds Personnel Management and Administration*, 10 September 1993

AFI 34-305, *Nonappropriated Fund Group Health Plans*, 28 December 2010

AFMAN 33-363, *Management of Records*, 1 March 2008

DoDI 1400.25, Volume 1408, *DoD Civilian Personnel Management System*, 21 Jul 2009

***Abbreviations and Acronyms***

**AFI**—Air Force Instruction

**AFMAN**—Air Force Manual

**AFNAF**—Air Force Nonappropriated Fund

**AFRIMS**—Air Force Records Information Management System

**AFSFMS**—Air Force Services Financial Management System (Payroll System)

**CPM**—Civilian Personnel Manual

**DCPDS**—Defense Civilian Personnel Data System

**DoD HBP**—Department of Defense Health Benefits Program

**FBP**—Flexible Benefits Plan

**FICA**—Federal Insurance Contributions Act

**FMLA**—Family and Medical Leave Act

**HQ USAF/JAA**—S—Headquarters, Air Force Services Agency (Legal Office)

**HQ AFSVA/SVXHI**—Headquarters, Air Force Services Agency (HQ AFSVA Insurance Branch)

**HRO**—Human Resources Office

**IRC**—Internal Revenue Code

**IRS**—Internal Revenue Service

**LES**—Leave and Earnings Statement

**NAF**—Nonappropriated Fund

**NAFI**—Nonappropriated Fund Instrumentality

**OPF**—Official Personnel Folder

**RDS**—Records Disposition Schedule

**SAD**—Stand Alone Dental

**SSA**—Social Security Administration

**SSC**—HQ AFSVA Shared Service Center (Payroll Branch)

## Attachment 2

### QUALIFYING EVENTS FOR CHANGING A FBP ELECTION

**A2.1. General.** The FBP permits an employee who is covered by the DoD HBP or SAD Plan to pay group health/dental premiums for such coverage with either pre-tax dollars or after-tax dollars.

**A2.2. Duration of a FBP Election.** A FBP election shall remain in effect until the employee changes such election under the circumstances permitted by paragraph 3 below.

**A2.3. Changing a FBP Election.** An employee may change his/her FBP election only under the following circumstances.

**A2.3.1. During a FBP Open Enrollment Period Coinciding with a DoD HBP Open Enrollment Period.** During a FBP Open Enrollment Period coinciding with a DoD HBP Open Enrollment Period, an employee may revoke a FBP election and make a new election.

**A2.3.2. During a Plan Year.** During a Plan Year, an employee may, under the circumstances described in subparagraphs (1) through (6) below, change his/her coverage under the DoD HBP for the remainder of the Plan Year and make a corresponding change in his/her FBP election. (These rules are prescribed by IRS regulations, 26 CFR 1.125-4 (f) (5). For more detailed guidance, refer to those regulations.)

**A2.3.2.1. Special Enrollment Rights.** An employee may revoke his/her FBP election during a Plan Year and make a new election for the remainder of the Plan Year if either he/she or a dependent is entitled to enroll in the DoD HBP during a Special Enrollment Period--an enrollment period outside the normal Open Enrollment Period for enrollment.

**A2.3.2.1.1. For Employees and Dependents Losing Other Coverage.** Generally, an employee who is eligible, but not enrolled, for coverage under the terms of the DoD HBP (or a dependent of such employee if the dependent is eligible, but not enrolled, for coverage under such terms) is entitled to a Special Enrollment Period if: (1) the employee or dependent was covered under another group health plan or other health insurance at the time coverage under the DoD HBP was previously offered to the employee or dependent; (2) at the time of such offer, the employee declined to enroll in the DoD HBP because of such coverage under another group health plan or other health insurance; (3) subsequent to such declination, the employee or dependent loses such coverage; and (4) the employee requests enrollment in the DoD HBP within 31 days of such loss.

**A2.3.2.1.2. For Employees' New Dependents.** Generally, a dependent of an employee is entitled to a Special Enrollment Period if the employee is a participant in the DoD HBP (or is eligible to be enrolled in the DoD HBP but for a failure to enroll during a previous enrollment period); a person becomes such a dependent of the employee through marriage, birth, adoption or placement for adoption; and the employee seeks coverage for his/her new dependent within 31 days of the date of the marriage, birth, adoption or placement for adoption.

**A2.3.2.2. Changes in Status.** An employee may revoke his/her election during a Plan Year and make a new election for the remainder of the plan year if (1) he/she is affected

by a "change in status", and (2) the election change is on account of and corresponds with such change in status. The following events are changes in status for purposes of this paragraph.

A2.3.2.2.1. **Legal Marital Status.** Events which change the employee's legal marital status, including marriage, death of a spouse, divorce, legal separation, or annulment.

A2.3.2.2.2. **Number of Dependents.** Events which change the employee's number of dependents, including birth, death, adoption, or placement for adoption.

A2.3.2.2.3. **Employment Status.** Events which change the employment status of the employee, a spouse, or a dependent, including a termination or commencement of employment, a strike or lockout, a commencement of or return from an unpaid leave of absence, or a change in worksite. In addition, if the eligibility conditions of the cafeteria plan or other employee benefit plan of the employer of the employee, spouse, or dependent depend on the employment status of that individual, and there is a change in that individual's employment with the consequence which the individual becomes (or ceases to be) eligible under the plan, then that change constitutes a change in employment status under this paragraph.

A2.3.2.2.4. **Dependent Satisfies or Ceases to Satisfy Eligibility Requirements.** Events which cause the employee's dependent to satisfy or cease to satisfy eligibility requirements for coverage on account of attainment of age, student status, or any similar circumstance.

A2.3.2.2.5. **Residence.** A change in the place of residence of the employee, spouse, or dependent.

A2.3.2.3. **Judgment, Decree, or Order.** An employee may revoke his/her FBP election during a Plan Year and make a new election for the remainder of the Plan Year if such change is on account of and corresponds with a judgment, decree, or order resulting from divorce, legal separation, annulment, or change in legal custody (including a qualified medical child support order as defined in ERISA, Section 609) which requires accident or health coverage for the employee's "child" (as that term is defined by the DoD HBP) or for a foster child who is a dependent of the employee. Under such circumstances, the employee may either--

A2.3.2.3.1. change his/her FBP election to provide coverage for the child if the order requires coverage for the child under the DoD HBP; or

A2.3.2.3.2. change his/her FBP election to cancel coverage for the child if the order requires the employee's spouse, former spouse, or other individual to provide coverage for the child; and proof of coverage is, in fact, provided. (This means, a servicing HRO may not cancel the employee's coverage until the employee first presents evidence satisfactory to the servicing HRO that such "other coverage" has been provided.)

A2.3.2.4. **Entitlement to Medicare or Medicaid.** If an employee, spouse, or dependent who is enrolled in the DoD HBP becomes entitled to coverage (i.e., becomes enrolled) under Medicare or Medicaid, other than coverage consisting solely of benefits conferred

by the program for distribution of pediatric vaccines, the employee may make a prospective election change to cancel or reduce coverage of the employee, spouse, or dependent under the DoD HBP. Conversely, if an employee, spouse, or dependent that has been entitled to such coverage under Medicare or Medicaid loses eligibility for such coverage, the employee may make a prospective election change to commence or increase coverage of the employee, spouse, or dependent under the DoD HBP.

A2.3.2.5. **Significant Cost or Coverage Changes.** An employee may revoke his/her FBP election during a Plan Year and make a new election for the remainder of the Plan Year--

A2.3.2.5.1. If, during the Plan Year, the cost of coverage under DoD HBP significantly increases or significantly decreases;

A2.3.2.5.2. If, during the Plan Year, coverage under DoD HBP changes (i.e., a significant curtailment without loss of coverage, a significant curtailment with loss of coverage, or the addition or improvement of a benefit package option);

A2.3.2.5.3. If the revocation and new election is on account of and corresponds with a change made under another employer plan, provided that the conditions prescribed by 26 CFR 1.125-4(f)(5) are met; or

A2.3.2.5.4. If the revocation and new election is to add coverage for the employee, spouse, or dependent following the employee's, spouse's, or dependent's loss of coverage under any group health coverage sponsored by a governmental or educational institution, such as those institutions listed at 26 CFR 1.125-4(f)(5).

A2.3.2.6. **Special Requirements Relating to the Family and Medical Leave Act (FMLA).** An employee taking leave under the FMLA may revoke his/her FBP election during a Plan Year and make a new election for the remainder of the Plan Year as may be provided for under the FMLA.

### Attachment 3

#### EMPLOYEE HANDOUT – FLEXIBLE BENEFITS PLAN (FBP) SUMMARY

**A3.1. GENERAL.** The AFNAF Flexible Benefits Plan is based on Section 125 of the IRC. Employees who participate in the FBP pay “*pre-tax*” premiums for group health/dental coverage, which normally reduces their taxable earnings and increases their take-home pay. Employees not participating in the FBP pay their group health/dental premiums with “*after-tax*” dollars.

**A3.2. ELIGIBILITY.** If you are currently enrolled in the DoD HBP, or the SAD Plan, you are eligible to participate in the FBP.

#### **A3.3. ENROLLMENT.**

A3.3.1. Initial Enrollment. To enroll in the FBP, simply complete an Election Statement at your HRO. For group health plan-related transactions under the DoD HBP, employees must complete AF Form 3558. For SAD Plan-related transactions, employees must complete Form GIP-SAD-FBP.

A3.3.2. FBP Open Enrollment Period. If you are not currently enrolled in the FBP, you can enroll during the next FBP Open Enrollment Period as long as you are also currently participating in the DoD HBP or the SAD Plan. Check with your HRO for Open Enrollment Period dates and more details.

A3.3.3. Effective Date of Premium (Tax) Election. The effective date of your premium (tax) election will depend on whether you are newly enrolling in the DoD HBP or SAD Plan, or whether you are changing your current enrollment and/or tax elections during the FBP Open Enrollment Period or upon a life-qualifying event such as marriage, birth/adoption, or divorce/death, etc. Your HRO will advise when your premium (tax) election takes effect.

A3.3.4. Flexibility. Because of IRS regulations, employees paying premiums with pre-tax dollars cannot drop or change their DoD HBP or SAD Plan coverage during the plan year (Jan through Dec) unless they meet certain qualifying conditions. For more details, refer to your handout on Qualifying Events for Changing a FBP Election or check with your HRO.

A3.3.5. Effect on Social Security Benefits. Your Social Security Award at retirement may be slightly reduced because Social Security benefits are based on lifetime earnings, which are subject to FICA taxes. With the FBP, the amount of earnings subject to FICA taxes is slightly reduced. However, the present value of current tax savings generally exceeds the value of future Social Security benefits which might be lost.

A3.3.6. You may not deduct premiums for the DoD HBP or the SAD Plan on your individual tax returns.

**A3.4. SUMMARY.** Remember the following points when you consider participating in the FBP.

A3.4.1. Participation is available only to employees who are currently enrolled in the DoD HBP or the SAD Plan.

A3.4.2. The FBP Open Enrollment Period runs annually--check with your HRO for specific dates and more information.

A3.4.3. The FBP Plan Year is a calendar year--the same as the tax year (January through December).

A3.4.4. When you participate in the FBP, you may not change or cancel your DoD HBP coverage or SAD Plan coverage or your premium (tax) election until the next FBP Open Enrollment Period except under limited circumstances. Your HRO has more details.

A3.4.5. The effective date of your premium (tax) election will depend on whether you are newly enrolling in the DoD HBP or the SAD Plan, or if you are changing your current group insurance enrollment and/or tax elections during the Open Enrollment Period or upon a life-qualifying event such as marriage, birth/adoption, or divorce/death, etc. Refer to the handout on "Qualifying Events for Changing a FBP Election" or check with your HRO for more information.

A3.4.6. We recommend you seek advice from a qualified tax advisor/counselor or an accountant before making an enrollment decision regarding your Flexible Benefit Plan option.