

**PREMIUM CONVERSION PLAN  
FOR EMPLOYEES OF THE CITY AND COUNTY OF HONOLULU  
July 2011**

**INTRODUCTION**

The City and County of Honolulu is please to provide this plan for the benefit of its employees. We have named it the Premium Conversion Plan (PCP). It is a type of plan which you may read or hear about which is often called a cafeteria plan, or an Internal Revenue Code Section 125 plan.

In order to retain this benefit, the City and County of Honolulu must administer this Plan in strict compliance with certain rules and regulations. Therefore, it is important that you read this flier thoroughly. Also, carefully weigh the Plan's effect on your social security benefits. NOTE: You may want to consult with your tax advisor to help determine whether this Plan will benefit you.

Please keep in mind that this is only a summary of the City and County of Honolulu Premium Conversion Plan and is not the complete text. In all cases where a question arises, the actual Plan will govern. The Plan may be examined or a copy may be obtained by contacting:

**Department of Budget and Fiscal Services  
PCP Administrator  
530 South King Street, Room 208  
Honolulu, HI 96813-3018**

**HOW DOES THE PLAN WORK?**

The Plan works in four steps:

Step 1: You agree to allow the City and County of Honolulu to reduce your pay. Step 2: The amount of reduction equals the total monthly employee contributions which are required by all the health plans in which you enroll.

Step 3: In return the City and County of Honolulu agrees to pay the required monthly employee contributions on your behalf. The result is that while you participate in this plan, the monthly employee contributions for the health plans you select no longer show up as a deduction from your paycheck.

Step 4: Because your pay is reduced, your Federal income, State income, and FICA tax liability is reduced.

Since step 1 and step 2 exactly offset each other, the entire tax savings in step 3 becomes an increase in your after-tax (i.e., spendable) income.

The following example shows how this plan would increase the take home pay of an employee: Employee Aloha earns a gross pay of \$1000 per semi-monthly pay period. Employee is married and claims two exemptions, and is enrolled in two-party health plans requiring a total employee contribution of \$221 per semi-monthly pay period.

**Hypothetical Example for  
Employee Aloha**

	<b>IF NOT ENROLLED IN PCP</b>	<b>IF ENROLLED IN PCP</b>
GROSS PAY	\$1000	\$1000
PCP Reduction	(0)	\$221
Gross Taxable Pay	\$1000	\$779
Withholding		
Federal Tax	\$12	\$0
State Tax	\$38	\$25
FICA Tax	\$77	\$60
Deductions		
Health Insurance (medical/drug/chiro+drug)	\$205	0
Vision Care	\$2	0
Dental	\$14	0
Other	\$100	\$100
Take-Home Pay	\$552	\$594
Savings Per Paycheck		\$42.00
Savings Per Month		\$84.00
Savings per year		\$1008.00
(NOTE: All figures rounded to the nearest dollar. <b>The chart is being provided for illustrative purposes only and DOES NOT reflect the actual employee contribution amount for the 2011 plan year.</b> Withholding based on 2010 Federal & State Income Tax Withholding Tables.)		

**WHAT EMPLOYEE CONTRIBUTIONS ARE COVERED BY THIS PLAN?**

The monthly employee contributions required by any component plan, as described below in which you enroll may be covered by this plan,

except that contributions to two plans of the same type will not be allowed.

#### WHAT IS A COMPONENT PLAN?

A Component Plan is any health care plan authorized by the Hawaii Employer-Union Health Benefits Trust Fund and offered to employees of the City and County of Honolulu.

#### WHEN AND HOW CAN I ENROLL IN THIS PLAN?

The Plan operates on a fiscal year which is also referred to as the plan year. The plan year begins July 1 and ends June 30.

**Current Employees.** If you are a current employee and do not enroll before the plan year begins, should you change your mind later and wish to enroll, you will have to wait until the following plan year. The only exception to this requirement occurs in the case where you are permitted under the Plan to change from an election of no health benefits plan coverage to an election for such coverage.

For example, if you previously did not take medical coverage through the City and County of Honolulu because you were covered under your spouse's medical plan, and your spouse dies or loses his/her job, you would be entitled to pick up medical coverage through the City and County of Honolulu, and you would also be entitled to enroll in the PCP. You must, however, file the appropriate PCP forms with your Departmental Personnel Office within 90 days of the event giving rise to your entitlement to enroll.

**New Employees.** If you are a new employee, you may enroll in this Plan when you become eligible to enroll in any of the eligible health benefits plans. Normally, this is **within 90 days** of the date you were hired.

If you do not enroll in PCP during this 90-day eligibility period, you will not be able to enroll in the Plan until the following plan year, unless you are permitted under the Plan to enroll.

#### HOW CAN I CHANGE MY PCP ELECTION?

Your PCP election will be automatically renewed each July 1<sup>st</sup>. If you wish to change your election, you can only do so during a designated enrollment period. The exact dates will be announced by the Plan Administrator each year. Generally, however, the enrollment

period will occur during the months of May and June which immediately precede the start of the plan year in which you are enrolling.

#### DURING THE PLAN YEAR, MAY I QUIT THE PLAN OR MODIFY THE AMOUNT MY PAY IS BEING REDUCED IN ORDER TO PARTICIPATE IN THE CITY AND COUNTY OF HONOLULU'S PREMIUM CONVERSION PLAN?

*The answer is generally no.* This is one of the restrictive rules the City and County of Honolulu must strictly observe in order to preserve the benefits provided to all participants.

There are, however, several exceptions to this rule. You will be allowed to quit the Plan or to make an appropriate change in your election under the City and County of Honolulu's Premium Conversion Plan if the change in your selection of a component plan is permitted by the Hawaii Employer-Union Health Benefits Trust Fund and the change is made because one of the following changes occurred in your personal status:

- A. Marriage, divorce, or legal separation of the employee.
- B. Death of the employee's spouse or child.
- C. Birth or adoption of a child.
- D. Mental or physical disability of the employee's spouse.
- E. Employment or termination of employment of the employee's spouse.
- F. Employee's termination of employment.
- G. Employee's transfer to an ineligible employment classification.
- H. A change in age, education, or marital status of the employee's child(ren) which makes them eligible or ineligible for coverage under a component plan.
- I. Start or return from an unpaid leave of absence.
- J. Moving outside of the area covered by the Health Maintenance Organization (HMO) in which the employee was enrolled.
- K. A significant change in the health coverage of the employee or employee's spouse due to the spouse's employment.

In order to make a change, it must also be consistent with your change in status, and you must file the appropriate PCP change forms with your Departmental Personnel Office **within 90 days** of the date of the change in your status. The effective date will generally be the first of the month following receipt of the change forms.

If, during the plan year, premium rates increase and there is a change in the employee contributions, the Plan Administrator will make the appropriate adjustments.

Please keep in mind that the City and County of Honolulu's Premium Conversion Plan in no way affects your rights under the Hawaii Employer-Union Health Benefits Trust Fund. The rule discussed above only prohibits the City and County of Honolulu from changing or stopping the reduction in pay you elected at the beginning of the plan year.

#### HOW CAN MY PCP BE CANCELLED?

Generally, you cannot cancel your PCP election during the plan year unless you transfer to a non-eligible employment classification, you marry and obtain coverage under your spouse's plan, or your spouse gets a new job, and you receive health benefits plan coverage through the new employer's plan. You must submit the required cancellation forms **within 90 days** of your qualified change in status.

Approved cancellations will generally be effective at the end of the month in which the cancellation forms are received.

There may be other situations in which cancellations can be allowed. However, you must write to the PCP Plan Administrator for prior approval.

Otherwise, you must wait until the next designated Open Enrollment period to cancel your PCP election.

#### CAN I LOSE MONEY UNDER THE PLAN?

Usually you will not lose money by making a PCP election. However, if you should change/cancel your health benefits plan

coverage but your PCP change/cancellation is allowable, your PCP election will continue and your premium payments will be forfeited. To ensure that your forfeitures are stopped at the end of the plan year (June 30<sup>th</sup>), you must file the required PCP change/cancellation forms during the next Open Enrollment period.

Mid-plan year change/cancellations that are allowable generally take effect the month after you file the required forms. So the longer you take to file, the more money (premium payments) you are likely to lose. To avoid this, **file promptly**.

#### IF MY DOMESTIC PARTNER IS COVERED UNDER MY HEALTH PLAN, CAN I ENROLL IN THE PCP?

If you cover your domestic partner under your health plan **AND** your domestic partner meets the definition of a "qualified dependent" under Section 152 of the Internal Revenue Code (IRC), and qualifies as your dependent for federal income tax purposes, you may deduct the entire premium contribution on a pre-tax basis. Otherwise, the contribution amount for your domestic partner shall be done on an after-tax basis. You must submit a PCP Domestic Partnership Acknowledgement Form, which can be obtained from your departmental personnel office or the CityFYI website at <http://cityfyi> under Forms drop down menu, Department of Budget and Fiscal Services.

#### WILL MY SOCIAL SECURITY BENEFITS BE AFFECTED IF I ENROLL IN THIS PLAN?

If you participate in the PCP, your Social Security benefits **may be slightly reduced** because your Social Security benefits and taxes will be calculated on your reduced salary amount.

#### WILL MY RETIREMENT PENSION BE AFFECTED IF I ENROLL IN THIS PLAN?

No. Your retirement pension will be based on your monthly gross pay and will **not be affected** by your participation in the PCP.

**WILL MY DEFERRED COMPENSATION PLAN BE AFFECTED IF I ENROLLED IN THE PCP?**

No. Participating in the PCP is not affected because your deferred compensation plan contributions are based on a fixed dollar amount and not a percentage of your pay.

**WHAT HAPPENS IF I GO ON LEAVE WITHOUT PAY?**

While you are on leave without pay (LWOP), out-of-pocket employee contributions that you pay to continue your health benefits plan coverages cannot be applied for PCP purposes. This is because these payments are made outside of the City and County of Honolulu's payroll system and do not qualify for the tax savings available under the Plan.

When you return from a LWOP, your PCP election will automatically continue if you continued your health benefits plan coverage during your leave by making the required out-of-pocket contributions.

If your health benefits coverages were cancelled because you did not make the required out-of-pocket contributions while you were on a LWOP, your PCP election will likewise be cancelled as of the same effective date.

However, you will be permitted to re-enroll in the PCP when you return to work, provided you have filed the appropriate PCP forms with your departmental personnel office **within 90 days** of your return.

**WHAT APPEAL RIGHTS DO I HAVE?**

If your PCP change or cancellation request is denied, you may file an appeal by writing to the PCP Plan Administrator **within 31 days** after receiving notice of the denial. Your letter must set forth all of your reasons for appealing the denial. (See address below.)

The Plan Administrator shall act upon your appeal within 60 days after either receipt of your request or receipt of any additional materials reasonably requested from you, whichever occurs later.

You shall be provided a written notice of the final decision on your appeal within 120 days of the date your appeal was filed.

The decision of the Plan Administrator shall be final and conclusive upon all persons.

**WHERE CAN I GET MORE INFORMATION?**

If you still have questions, you should contact your departmental personnel office. Written request may be sent to:

**Department of Budget and Fiscal Services  
Plan Administrator  
530 South King Street, Room 208  
Honolulu, HI 96813-3018**

**This brochure can be made available to individuals who have special needs or who need auxiliary aids for effective communication (i.e., large print or audiotape), as required by the Americans with Disabilities Act of 1990, by contacting BFS Administration at 768-3900.**