

The Office of Personnel Management (OPM) recently announced that effective Jan. 1, 2012, premium rates for some Federal Employee Group Life Insurance (FEGLI) categories will change. FEGLI is the group term life insurance plan available to full- and part-time federal employees and eligible annuitants.

FEGLI consists of "basic" life insurance -- the basic insurance amount (BIA) -- and three optional types of coverage -- Option A, Option B and Option C. The BIA is an employee's annual basic pay - as shown on an employee's current SF 50 (Notice of Personnel Action) -- rounded up to the next \$1,000, plus \$2,000. Option A: Standard - additional coverage of \$10,000. Option B: Additional - additional coverage equal to one to five times an employee's annual basic pay. Option C: coverage for the employee's current spouse and dependent children. Option C coverage provides a base amount equal to \$5,000 for the spouse and \$2,500 for each child. An employee may elect additional coverage in multiples of up to five times the base amount.

Starting Jan. 1, 2012, for most employees and annuitants the premium cost of Option B will decrease. But as will be explained below, those annuitants who elect to keep the full amount of their FEGLI BIA will pay on average five to six percent more in premiums. Those annuitants who at the time of their retirement elect to reduce their FEGLI BIA by 50 percent will see an increase of about four to seven percent in their FEGLI premium cost during their retirement years.

The following table summarizes the cost of the post-retirement (annuitant) BIA premium rates per \$1,000 of insurance. An annuitant's BIA coverage is a retiring employee's BIA as of the employee's retirement date.

Note that in order to continue the FEGLI BIA into retirement, a retiring employee must:

1. retire on an immediate annuity -- an annuity that starts within 30 days after separation, or a postponed annuity under the MRA + 10 provisions of FERS;
2. be enrolled in FEGLI for the five years preceding the starting date of the annuity;
3. have not converted the FEGLI to an individual policy; and (4) has not waived the FEGLI "basic" life insurance.

Table 1. Post-Retirement BIA Monthly Premium Cost Per \$1,000 of Insurance

FEGLI "Basic" Amount Election	Monthly premium cost for each \$1,000 of an annuitant's BIA before age 65		Monthly premium cost for each \$1,000 of an annuitant's BIA after age 65	
	Pre-1/1/2012	Post-12/31/2011	Pre-1/1/2012	Post-12/31/2011
No Reduction	\$2.155	\$2.2650	\$1.83	\$1.94
50 percent reduction	\$0.925	\$0.965	\$0.60	\$0.64
75 percent reduction	\$0.325	\$0.325	No Cost	No Cost

The following is an example that illustrates the cost of the FEGLI BIA.

Example 1. *Joseph, age 61, retired from federal service on July 3, 2011. On the day Joseph retired, his FEGLI BIA was \$100,000. At the time of retirement, Joseph elected via Form SF 2818 to keep throughout retirement his full FEGLI BIA of \$100,000. The following table summarizes Joseph's premium cost. Note that effective 1/1/2012, Joseph will pay \$11 more in premiums each month (\$132 more per year) for his FEGLI BIA.*

Monthly premium cost for Joseph's BIA of \$100,000 (pre-age 65)		Monthly premium cost for Joseph's BIA of \$100,000 (post-age 65)	
Pre-1/1/2012	Post-12/31/2011	Pre-1/1/2012	Post-12/31/2011
\$215.50	\$226.50	\$183.00	\$194.00

Example 2. Same facts as Example 1 except that Joseph elected (via Form SF-2818) to have a 50 percent reduction in his FEGLI BIA starting the month after he is age 65. Note that effective 1/1/2012, Joseph will pay \$4 more in premiums each month (\$48 more per year) for his FEGLI BIA that will be reduced by 50 percent starting the month after he is age 65.

Monthly premium cost (pre-age 65) for Joseph's BIA of \$100,000 with a 50 percent reduction starting the month after age 65		Monthly premium cost (post-age 65) for Joseph's BIA of \$100,000 with a 50 percent reduction starting the month after age 65	
Pre-1/1/2012	Post-12/31/2011	Pre-1/1/2012	Post-12/31/2011
\$92.50	\$96.50	\$60.00	\$64.00

Note that if Joseph had elected - on Form SF 2818 which he had submitted as part of his retirement papers - a 75 percent reduction in his FEGLI BIA, then Joseph will not pay any additional for his FEGLI BIA between age 61 and age 65. His monthly premium cost for his FEGLI BIA between ages 61 and age 65 would be the same as it was at the time of retirement. He would also not have to pay any premium for his FEGLI BIA starting the month after he comes age 65. This is because under the BIA "75 percent reduction" option, the BIA reduction of 2 percent per month starts the month after an annuitant becomes age 65 (and continues to decrease to 25 percent of the original BIA) at which time there is no monthly premium.

In determining these premium changes, OPM completed a study of funding and claims experience within the FEGLI program. Based on this updated actuarial analysis of actual claims experiences, OPM has determined that changes are required to post-retirement FEGLI BIA. No changes in premium rates are required for FEGLI Option A.

Also as a result of OPM'S study, changes in premium rates -- in fact, decreases -- are coming to most Option B age groups. As shown in the following table, monthly premiums for the following age bands for Option B are being reduced: Under age 35, 35-39, 40-44, 45-49, 50-54, 55-59, 60-64, 65-69, and 70-74. Note that the last premium change to Option B was implemented in 2005.

Table 2. Option B (One to Five Times Salary) Monthly Premium Cost

Age of Employee or Annuitant	Monthly Premium Per \$1,000 of Option B Coverage		Difference in Monthly Premium Per \$1,000
	Pre - 1/1/2012	Post- 12/31/2012	Decrease (-) Effective 1/1/2012
Under 35	\$0.065	\$0.043	-\$0.022
35 - 39	\$0.087	\$0.065	-\$0.022
40 - 44	\$0.130	\$0.108	-\$0.022
45 - 49	\$0.195	\$0.173	-\$0.022
50 - 54	\$0.303	\$0.282	-\$0.021
55 - 59	\$0.607	\$0.498	-\$0.109
60 - 64	\$1.30	\$1.127	-\$0.173
65* - 69	\$1.56	\$1.343	-\$0.217
70 - 74	\$2.60	\$2.470	-\$0.130
75 - 79	\$3.90	\$3.90	\$0.000
80 and over	\$5.20	\$5.20	\$0.000

*For eligible annuitants who elected no reduction for Option B. If annuitant elects full reduction of Option B (2 percent per month; reduction starting the month after the annuitant becomes age 65 or the month after retirement if an employee retires after age 65) then no cost for Option B starting the month after the annuitant's 65th birthday.

For those employees who intend to keep their Option C FEGLI coverage - life insurance on eligible family members - this includes a spouse and children - OPM has also made premium adjustments effective Jan. 1, 2012. The premiums (age-based, based on the employee's or annuitant's age) are summarized in Table 3.

Table 3. Option C (Family Coverage) Monthly Premium Cost

Age of Employee or Annuitant	Monthly Premium Per \$1,000 of Option C Coverage (Maximum \$25,000)		Difference in Monthly Premium Per \$1,000
	Pre - 1/1/2012	Post- 12/31/2012	Decrease (-) or Increase (+) Effective 1/1/2012
Under 35	\$0.59	\$0.48	-\$0.11
35 - 39	\$0.74	\$0.63	-\$0.11
40 - 44	\$1.00	\$0.91	-\$0.09
45 - 49	\$1.30	\$1.37	+\$0.07
50 - 54	\$1.95	\$2.04	+\$0.09
55 - 59	\$3.14	\$3.29	+\$0.15
60 - 64	\$5.63	\$5.85	+\$0.22
65*- 69	\$6.50	\$6.80	+\$0.30
70 - 74	\$7.37	\$7.80	+\$0.43
75 - 79	\$9.75	\$10.40	+\$0.65
80 and over	\$13.00	\$14.30	+\$1.30

* For eligible annuitants who elect no reduction for Option C. For those annuitants who elect full reduction, then starting at age 65 these annuitants will not pay a monthly premium for Option C.

Note that starting Jan. 1, 2012, Option C premium cost is increasing for both employees and annuitants age 45 and older.

Given these changes in FEGLI post-retirement BIA, Option B and Option C premiums for both employees and annuitants, what should employees -- especially those employees who will be retiring within the next few years -- consider with respect to their FEGLI coverage? Federal employees, like other individuals who currently own life insurance policies, should reevaluate the purpose of their life insurance. They should ask themselves how much life insurance coverage they need and for how long they need it. In particular, those employees who are within five years of retirement, who have a need for life insurance for at least five to ten years beyond their retirement date, and who are in reasonably good health should investigate if they could pay less in premiums by purchasing term life insurance from a private insurance company. Individual term life insurance rates have decreased on average in recent years. This decrease in premiums has been partially a result of increasing life expectancy. Also, more insurance companies are selling individual life insurance policies resulting in competition among life insurance companies. Of course, for an individual life insurance policy, an individual must qualify via insurance underwriting -- this may necessitate a comprehensive medical exam and an attending doctor's report -- when applying for an individual term life insurance policy.

Retiring employees should also understand that the decision to maintain all - or part -of their FEGLI coverage for retirement must be made at the time of retirement via form SF 2818. Annuitants can only cancel their FEGLI coverage; after they retire, they cannot reduce the amount of the various parts to their FEGLI coverage.

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