



***Retirement and Insurance Service
Benefits Administration Letter***

Number: 02-306

Date: April 23, 2002

Subject: Federal Long Term Care Insurance Program: Payroll Deductions

This Letter provides agency payroll offices with an initial set of global guidelines for the deduction and remittance of FLTCIP premiums.

The Office of Personnel Management (OPM) will be conducting an open season for enrollment in the Federal Long Term Care Insurance Program (FLTCIP), beginning July 1, 2002 and running through December 31, 2002. This is the first opportunity for Federal and Postal employees and annuitants, and members and retired members of the uniformed services to elect to pay FLTCIP premiums through payroll and annuity deductions. (Enrollees also can choose to pay FLTCIP premiums through direct billing or automatic bank withdrawal. An enrollee who chooses to pay through one of these other methods can switch to payroll deduction at any time.)

The earliest effective date of coverage for an open season enrollment is October 1, 2002. For those persons with an October 1 effective date, payroll deductions will start with the first day of the first pay period that begins on or after October 1, 2002.

For the early enrollment period that runs from March 25 - May 15, 2002, payroll/annuity deduction is not available. Persons who elected coverage during early enrollment can switch to payroll deduction during the open season.

Information on the specific requirements of your agency payroll office (APO) will be determined by direct discussion between the APO and LTC Partners, our FLTCIP contractor.

Throughout this letter, we use the term "employee" to mean an eligible Federal civilian employee, Postal employee, Federal annuitant, member of the uniformed services, or retired member of the uniformed services. Please check our web site at www.opm.gov/insure/ltc/faq/eligibility.htm for more information on eligibility. We also use the term "payroll deduction" to include annuity deductions.

*Civil Service
Retirement
System*

*Federal Employees'
Group Life
Insurance Program*

*Federal Employees
Health Benefits
Program*

*Federal Employees
Retirement
System*

*Long Term
Care Insurance
Program*

Application procedures

Individuals will apply for FLTCIP coverage by sending their applications directly to LTC Partners, either on-line (for those eligible to use the abbreviated application) or by hard copy. The application will not be processed or approved by the APO or the human resources office. Thus, the FLTCIP application process is different from the Federal Employees Health Benefits (FEHB) and Federal Employees' Group Life Insurance (FEGLI) Programs.

Communication of payroll office identifier

One of the items an employee will need to know to set up FLTCIP payroll deductions is the payroll office identifier for his/her payroll provider. It will be the basis for LTC Partners' billing and collection process. Since the FLTCIP application will not flow through APOs or human resources offices, employees must input their payroll office identifier on the application if they want payroll deduction. The payroll office identifier in most cases will be a combination of agency and department codes. LTC Partners is developing a web tool and enrollment materials that will assist employees in locating their payroll office identifier, and will be working with APOs to ensure that the identifiers are accurate.

Billing file

For employees electing payroll deduction, LTC Partners will forward to APOs a billing file containing all necessary information to make FLTCIP payroll deductions. This file will be transmitted in the format and on the schedule agreed upon by the APO and LTC Partners. At the APO's option, the billing file can either be a "change" file or a "full" file. A change file will include only new deductions, changes to deductions, and stop deductions, while a full file will contain complete deduction information for all enrollees. The billing file will be provided to the APO on the schedule agreed upon by the APO and LTC Partners.

At a minimum, the billing file will contain the following information:

- Name of employee (last, first, middle initial)
- Social security number of employee
- Payroll office number (PON)
- Amount of deduction
- One-character code, as follows:
 - A - initial deduction
 - C - change deduction amount
 - D - cancel deduction
 - N - no change in deduction amount (on full files only)

Employees may also pay FLTCIP premiums for their enrolled qualified relatives through payroll deduction (even if the employee is not enrolled). LTC Partners will provide the APO with a total deduction for the employee's pay in the billing file.

Amount to deduct

LTC Partners will calculate the amount of premium deductions based on the payroll cycle of the enrollee and provide it to the APO on the billing file. It is critical, therefore, that the APO communicate information about each payroll cycle it services to LTC Partners.

The APO will deduct the exact amount specified by LTC Partners on the billing file. Therefore, you will not have to produce or maintain a table of premium amounts, or calculate the amount of FLTCIP premium deductions.

Order of precedence

APOs will deduct FLTCIP premiums in the order specified in their established rules of precedence. Since FLTCIP premiums are for benefits specifically authorized by law, they must be placed before discretionary allotments. Since enrollees will be able to switch easily to alternate premium payment options should their available pay become insufficient, we believe that FLTCIP premiums should be placed relatively low in the order of precedence. We recommend that agencies place FLTCIP premium deductions immediately after premiums for **optional** FEGLI in their order of precedence. Should an enrollee's remaining available pay be insufficient to cover his/her entire FLTCIP premium deduction, then the deduction must not be made. Do not take any partial deductions.

Premiums are not deducted on a pre-tax basis

At this time, long term care insurance premiums cannot be deducted on a pre-tax basis. We do not foresee the passage of any legislation in the near future that would change the tax treatment of long term care insurance premiums.

Effective date of initial deduction

FLTCIP coverage is always effective on the first day of a month. However, most payroll cycles do not perfectly coincide with calendar months. In these cases, since deductions are taken in arrears, LTC Partners will apply the first premium deduction it receives on behalf of an employee to the first of the month. This requires no action on the APO's part. The APO will simply deduct what the billing file says to deduct. Deductions will never start before the pay period that either starts on or before the effective date of coverage.

For example, let's assume that an employee has an October 1, 2002 effective date of coverage. Let's also assume that the employee is paid on a biweekly basis. LTC Partners will ask the APO to make the first premium deduction from the October 30 paycheck that covers the pay period from October 6-19 (the first full pay period that starts on or after the effective date of coverage). LTC Partners will reconcile the employee's payment of FLTCIP premiums when his/her payroll deductions stop. Again, this requires no action on the APO's part.

Remittance of deductions and associated information

On each pay date, the APO will remit the deducted premiums to LTC Partners along with information supporting the deduction. The form of remittance, both the method by which payment is made to LTC Partners, and the format in which the payment data is provided to LTC Partners, will be the methods agreed upon by the APO and LTC Partners. At a minimum, the remittance file will contain the following information:

- Name of employee (last, first, middle initial)
- Social security number of employee
- Payroll office number (PON)
- Total amount remitted
- Reason for deductions not taken and date of event:
 - Death
 - Leave without pay
 - Retired - annuity
 - Retired - no annuity
 - Retired - annuity status unknown
 - Separated from service
 - Transferred to another APO (date of event not needed)
 - Unrecognized SSN (date of event not needed)
 - Insufficient funds (date of event not needed)

Employee to be paid by different APO (including retirement)

If the employee transfers to a position serviced by a different payroll office or retires, you will inform LTC Partners by means of a status code on the remittance file. If you have information on the APO to which the employee has transferred, please submit it to LTC Partners at that time. If you do not have that information, LTC Partners will switch the employee to direct bill until he/she contacts LTC Partners with the information necessary to initiate payroll deductions with the new APO.

In the event that premiums are not deducted timely due to the transfer, LTC Partners will bill the employee the unpaid amount.

“All or none” deductions

If an employee's salary is ever insufficient to cover the full amount for FLTCIP premiums, you will deduct nothing at all for that period. You will not deduct a partial payment at any time. If you believe that the situation that caused the salary insufficiency will continue for more than one or two pay periods, please note that on the payment file so LTC Partners can switch the employee to a different billing method.

Automatic switch to direct bill

If, after three consecutive pay dates, LTC Partners does not receive premiums through payroll deduction for an employee, LTC Partners will automatically switch him/her to direct bill. The APO will get a “D” code - cancel deduction - for this employee on the next billing file. The APO will then stop taking any further deductions.

Adjustments handled by direct bill

LTC Partners will handle all nonrecurring premium adjustments by direct bill to the enrollee. This means that payroll deductions will not change from pay period to pay period, unless the employee has opted to make a change in coverage. New premium amounts will be communicated to the APO in the regular billing file from LTC Partners.

Leave without pay

When an employee is placed on leave without pay, you will note that status code on your payment file. LTC Partners will attempt payroll deductions for that person for the next two pay periods. If the employee remains on leave without pay for more than three pay periods, LTC Partners will automatically move him/her to direct billing. The APO will get a “D” code - cancel deduction - for this employee on the next billing file. The APO will then stop taking any further deductions. The employee can resume payroll deduction when he/she returns to pay status by contacting LTC Partners with that request. Do not restart payroll deductions unless you receive a request to do so in the billing file from LTC Partners.

Do not collect premiums for the time the employee spent in leave without pay status when the employee returns to pay status. LTC Partners will directly bill the employee for all missed premium payments.

Reconciliation and reporting requirements

Unlike with the FEHB Program, you will not be required to perform formal enrollment and premium reconciliations with LTC Partners. LTC Partners is solely responsible for making sure it receives the proper payment for each enrollee. You are only responsible for deducting and timely remitting the amounts billed by LTC Partners, and assuring that the payment file total balances to the total remittance for the period. If they do not balance, you must indicate why.

Testing schedule

Testing of the specific billing files, remittance files, as well as electronic transmissions of these files, will begin in early June, and continue through early September. Testing schedules will be established between each APO and LTC Partners.

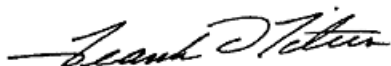
The testing will:

- encompass the specific field data on the files,
- include cycles to allow for testing adds, changes, and deletes, as well as status change information, and
- ensure balancing of the remittance file.

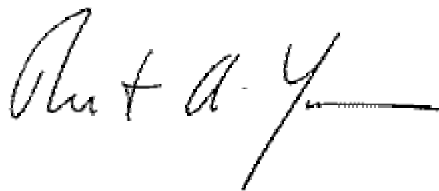
The following is an *example* of a high-level testing schedule:

- 6/15/02 – Initial test billing file from LTC Partners to APO – all adds
- 6/22/02 – Initial test remittance file from APO to LTC Partners – including status changes, missed deductions, etc.
- 6/29/02 – Second test billing file from LTC Partners to APO – adds, changes, deletes, and no changes
- 7/1/01 – Second test remittance file from APO to LTC Partners.

We want to thank all agency officials for their hard work and continued cooperation in getting this important new benefit off the ground. We will continue to consult with you and keep you informed of developments as we move closer to making payroll deductions a reality for FLTCIP premiums. If you have any questions regarding this information, you may contact the LTC Partners payroll deduction implementation team. You can reach Linda Hazelton at (617) 886-2899 or lhazelton@jhancock.com and Kathy Brennan at (617) 886-2885 or kbrennan@jhancock.com.



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