

**8 MAY 1995**



**Services**

**NONAPPROPRIATED FUND FLEXIBLE  
BENEFITS PLAN**

**COMPLIANCE WITH THIS PUBLICATION IS MANDATORY**

---

**NOTICE:** This publication is available digitally on the SAF/AAD WWW site at: <http://afpubs.hq.af.mil>. If you lack access, contact your Publishing Distribution Office (PDO).

---

OPR: HQ AFSVA/SVXB  
(Ms. Georgia A. LeBlanc)  
Supersedes AFI 34-307, 25 July 1994.

Certified by: HQ USAF/SVX  
(Col Thomas Padgett)  
Pages: 8  
Distribution: F

---

This instruction implements portions of AFDP 34-3, *Morale, Welfare, Recreation, and Services Nonappropriated Funds (NAF) Personnel Management and Administration*. It establishes procedures for managing and administering the Air Force Nonappropriated Fund (AFNAF) Flexible Benefits Plan (FBP). It describes how to communicate the plan to eligible employees and how to prepare AF Form 3558, **Election Statement**. To fully understand the FBP, the terms it uses, and the administrative procedures it requires, consult the Flexible Benefits Plan Summary Plan Description; AFI 34-305, *Nonappropriated Fund Group Health Plan*; and related guidance in AFM 176-378, *Standard Accounting Procedures for Nonappropriated Funds (Mechanized)*. This instruction directs collecting and maintaining information subject to the Privacy Act of 1974 authorized by 10 U.S.C. 8013. System of records F176 AF MP B, Nonappropriated Fund (AFNAF) Employee Insurance and Benefits System File, applies. This does not apply to the Air National Guard.

**SUMMARY OF REVISIONS**

This revision corrects the paragraph sequencing of the initial publication of AFI 34-307 and updates the example for determining the effective date of FBP participation as it applies to **6.4**.

**Section A—Plan Authority**

**1. Authority.** The AFNAF FBP was established under the provisions of the Internal Revenue Code (IRC), Title 26, United States Code (U.S.C.), Section 125. The plan gives NAF employees and retirees who are enrolled in the AFNAF Group Health Plan (AFNAF Health Plan) the option to pay their health plan contributions with pre-tax earnings.

1.1. A formal plan document approved by the Air Force Morale, Welfare, and Recreation Advisory Board (AFMWRAB) states the FBP rules. The Air Force Services Agency (AFSVA) maintains this document.

1.2. A Summary Plan Description (SPD) developed and distributed to installation Human Resources Offices by AFSVA summarizes the general rules of the FBP. If there is a conflict between the plan document, this AFI, and the SPD, the plan document governs.

### ***Section B—Plan Management***

**2. Plan Management.** AFSVA manages the FBP. A Flexible Benefits Plan Committee, consisting of AFSVA staff members appointed by the commander of AFSVA, oversees the FBP and the plan administrator. The plan administrator, a member of the AFSVA staff, executes the FBP, publishes the SPD, prepares reports that the IRC requires, and is the office of primary responsibility for this AFI.

2.1. The installation Human Resources Office (HRO) and payroll office use this AFI to ensure that the FBP complies with the plan document and the IRC.

2.1.1. Send requests for additional copies of the SPD along with any technical questions and comments on executing the FBP to HQ AFSVA/SVXB, ATTN: Group Insurance, 10100 Reunion Place, Suite 502, San Antonio, TX 78216-4138.

### ***Section C—Human Resources Office Responsibilities***

**3. Human Resources Office Responsibilities.** The installation HRO administers the FBP at the installation level. The HRO determines which employees are eligible to participate in the FBP (4.), counsels eligible employees and participants (5.), enrolls eligible employees as participants (6.), and disenrolls or changes enrollment of participants when required (7.).

**4. Eligibility for Participation.** Only employees enrolled in the AFNAF Health Plan may participate in the FBP. Employees participating in a Health Maintenance Organization (HMO) or a personal health insurance plan are not eligible to participate in the FBP.

4.1. Former NAF employees who receive annuities from the AFNAF Employee Retirement Plan and who continue to participate in the AFNAF Health Plan are eligible to participate in the FBP (see AFI 34-305, *NAF Group Health Plan*).

**5. Counseling Employees.** Employees must understand the FBP so they can make an informed decision about whether to participate. The HRO counsels employees on the plan's advantages and disadvantages, answers related questions, and provides a summary of the plan (**Attachment 2**). The HRO uses examples shown in the SPD to explain how participation in the FBP can increase take-home pay. If an employee elects to participate in the FBP, the HRO gives the employee a copy of the SPD.

**6. Enrollment and Effective Date.** An employee enrolling in the AFNAF Health Plan is also eligible to enroll in the FBP. The timing and conditions of enrollment in the health plan determine the effective date of FBP enrollment.

6.1. If an employee enrolls in the health plan within the 30-day waiting period and at the same time completes AF Form 3558, **Election Statement**, to participate in the FBP, FBP participation and coverage under the health plan take effect on the same day.

6.2. If an employee receives evidence of insurability approval and enrolls in the health plan at some date after the 30-day waiting period, the employee may not enroll in the FBP until the next open sea-

son (2 December through 31 December of each year) unless the employee experiences a change in family status (see [Attachment 3](#) for examples of such changes). If late enrollment in the health plan coincides with a change in family status and if the employee wants to participate in the FBP, the employee must complete AF Form 3558 before health plan payroll deductions begin. FBP participation takes effective on the same day that coverage under the health plan begins.

6.3. If an employee enrolls in the health plan but chooses not to participate in the FBP, the employee may later enroll in the FBP if a change in family status affects the employee's health plan enrollment category. FBP participation and coverage under the new enrollment category take effect on the same day. For example, if a single employee with employee-only health coverage marries, the employee may change to employee-with-family member coverage within 30 days of the marriage without submitting evidence of insurability (see [A2.3.3.](#)). The employee may also elect to participate in the FBP. FBP participation and the new health enrollment category take effect on the same day.

6.4. If an employee initially chooses not to enroll in the FBP or if an employee's late enrollment or change of enrollment in the health plan does not coincide with a change in family status, the employee may not enroll in the FBP until the annual open season (2 through 31 December of each year). If an employee enrolls during the open season, FBP participation takes effect on a date such that pre-tax contributions are deducted from the first pay check received on or after 1 January of the following year. For example, if the payday for pay period 95A is 6 Jan 95, then the effective date of participation is 18 Dec 94, the first day of that pay period.

6.5. After the employee completes AF Form 3558 to enroll in the FBP, the HRO prepares an AF Form 2545, **Nonappropriated Fund Instrumentalities (NAFI) Notification of Personnel Action**, documenting the employee's enrollment and sends it to the payroll office. File the completed AF Form 3558 in the employee's Official Personnel Folder (OPF) with all other forms and cards related to group insurance.

6.6. Duration of Election. The enrollment of the employee remains in effect until one of the following occurs:

- The employee changes the enrollment because his or her family status changes (see [Attachment 3](#) for examples).
- The employee changes the enrollment during the open season (2 through 31 December of each year). During the open season, an employee may change the current election statement (change coverage or disenroll) or choose to participate in the FBP for the first time.
- The employee ends NAF employment or is reclassified to an employment category other than regular.
- The AFNAF Health Plan is terminated.

**7. Disenrollment or Change in Enrollment.** During the plan year, an employee may disenroll or change the current FBP enrollment if the employee experiences a change in family status or if employment ends. The disenrollment or change in enrollment must occur within 30 days of the change in family status; otherwise the employee must wait until the next open season to change FBP enrollment.

7.1. The disenrollment or change in enrollment must be consistent with the change in family status. This means there must be a direct, logical connection between the change in family status and the change in FBP participation. For example, if a single employee who carries employee-only health coverage but does not participate in the FBP marries (a change in family status), the employee may

choose to change to employee-with-family member coverage within 30 days of the marriage and may also choose to participate in the FBP. If a married employee with employee-only coverage gets divorced, the employee cannot terminate FBP participation until the next open season. When there are questions, seek advice from AFSVA.

7.2. If an employee terminates NAF employment or if an employee is reclassified to an employment category other than regular, automatically terminate FBP participation.

7.3. If an employee retires under the provisions of the AFNAF Employee Retirement Plan and is eligible to continue participating in the health plan, the retiree may elect to continue FBP participation. In such cases, HQ AFSVA deducts health plan contributions from the retirement annuity on a pre-tax basis.

### ***Section D—Processing AF Forms***

**8. Processing AF Forms.** If an employee enrolls in the AFNAF Health Plan, give the employee AF Form 3558, **Election Statement**, so that the employee can choose to pay health contributions with either pre-tax or after-tax earnings.

8.1. If the employee chooses pre-tax payment, complete AF Form 2545, **NAFI Notification of Personnel Action**. Enter plan code 1 or 2 within the appropriate remark in Block 25 . If the employee chooses after-tax payment, enter plan code L or Q within the appropriate remark in Block 25.

8.2. Send AF Form 2545 to the payroll office for processing and file AF Form 3558 in the employee's OPF.

8.3. Using AF Form 2545, the payroll office processes the insurance election as directed in AFM 176-378, *Standard Accounting Procedures for Nonappropriated Funds (Mechanized)*.

STEVAN B. RICHARDS, Colonel, USAF  
Director of Services

## **Attachment 1**

### **ABBREVIATIONS AND ACRONYMS**

#### *Abbreviations and Acronyms*

**AFSVA**—Air Force Services Agency

**AFNAF**—Air Force Nonappropriated Fund

**FBP**—Flexible Benefits Plan

**HQ AFSVA**—Headquarters Air Force Services Agency

**HRO**—Human Resources Office

**IRC**—Internal Revenue Code

**NAF**—Nonappropriated Fund

**NAFI**—Nonappropriated Fund Instrumentality

**OPF**—Official Personnel Folder

**SPD**—Summary Plan Description

## Attachment 2

### SUMMARY OF THE AFNAF FLEXIBLE BENEFITS PLAN

**A2.1. Background.** The AFNAF Flexible Benefits Plan (FBP) permits Air Force NAF employees participating in the AFNAF Health Plan to pay their contributions to the plan with pre-tax earnings. Employees who choose to participate in the FBP can reduce their taxable income. In effect, this reduces the cost of their group health insurance. If an employee chooses not to participate in the FBP or fails to make a choice, all contributions to the health plan are paid with after-tax earnings.

**A2.2. Eligibility.** Employees participating in the AFNAF Health Plan are eligible to participate in the FBP. Employees participating in a Health Maintenance Organization or a personal health insurance plan are not eligible to participate in the FBP.

#### **A2.3. Enrollment:**

A2.3.1. Initial Enrollment. Employees enroll in the FBP by filling out AF Form 3558, Election Statement, and giving it to the servicing Human Resources Office (HRO). The best time to enroll is during the 30-day waiting period immediately following an employee's date of hire or reclassification to an eligible employment status. By doing so, all of the employee's contributions to the health plan are paid with pre-tax earnings.

A2.3.2. Open Season. If an employee initially elects not to enroll in the FBP (or enrolls and then later disenrolls), the employee can enroll (or reenroll) only during the FBP Open Season (2 through 31 December of each year). An employee can also disenroll during the open season.

A2.3.3. Evidence of Insurability. If an employee submits Evidence of Insurability (EOI) to enroll in the health plan, the employee may complete AF Form 3558 at the same time; however, enrollment in the FBP depends upon approval of the EOI. If the EOI is approved, FBP participation and coverage under the health plan take effect at the same time.

**A2.4. Advantages.** The most visible advantage of FBP participation is an increase in the employee's take-home pay. This increase occurs because FBP participation exempts a participant's contributions to the health plan from both social security taxes and income taxes. That is, the payroll office withholds less tax from an FBP participant's gross pay.

**A2.5. Disadvantages.** As with many benefit plans, no matter how good they are, there can be disadvantages. The FBP is no exception but its disadvantages are minor. Examples follow:

A2.5.1. An employee's ultimate Social Security Award at retirement may be reduced slightly. Social security benefits are based on lifetime earnings subject to Federal Insurance Contribution Act (FICA) taxes. With the FBP, the amount of earnings subject to FICA taxes is reduced slightly. However, the present value of tax savings from FBP participation generally exceeds the present value of future social security benefits that might be lost.

A2.5.2. FBP participants may not deduct contributions to the group health plan on their individual income tax returns. For many NAF employees, this is not a disadvantage because they do not meet the minimum requirements necessary to deduct health insurance costs anyway. In order to be deductible, total medical expenses, including health insurance costs, must exceed a percentage of adjusted

gross income, and the medical expenses of most NAF employees do not exceed that minimum threshold. Moreover, some states do not permit taxpayers to deduct health insurance costs from income subject to state income tax.

A2.5.3. FBP participants may not claim all of the earned income credit authorized by IRC Section 32. This section allows a taxpayer to take a tax credit for the cost of health insurance for a qualifying dependent child. For some employees, the tax savings from FBP participation exceeds the credit, but for others, the reverse is true.

A2.5.4. If in doubt about whether FBP participation will downgrade your social security benefits or worsen your income tax situation, seek advice from the Social Security Administration or a qualified tax counselor.

**A2.6. Summary.** Keep the following points in mind when choosing to participate in the FBP:

- You must be enrolled in the AFNAF Group Health Plan to participate in the FBP.
- You must enroll when you are first eligible or during an annual open season; otherwise, your opportunity to enroll during the year is very limited.
- You cannot change your health coverage or terminate your enrollment in the FBP until the following open season, except during rare situations involving a change in family status.
- The FBP is basically an annual plan, and the plan year is a calendar year (1 January through 31 December).

### **Attachment 3**

#### **CHANGES IN FAMILY STATUS**

**A3.1.** The following are examples of changes in family status. Such changes permit employees to terminate or change the FBP election. Contact HQ AFSVA/SVXB for help in deciding whether a change qualifies as a change in family status.

- Marriage or divorce of the employee.
- Death of the employee's spouse or family member.
- Birth or adoption of a child by the employee.
- Employment of the employee's spouse terminates or commences.
- Employee's reclassification to an eligible employment status.
- Eligibility change in employment status of the employee's spouse.
- Leave without pay (LWOP) by the employee or the employee's spouse.
- Significant changes in the health coverage of the employee's spouse due to the spouse's employment.