AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

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Health Reform and You

There are a number of provisions in the health care law that will affect federal employees:

- The law introduces an excise tax on high-value employee health insurance plans, including some Federal Employees Health Benefits Program plans. Effective in 2018, insurance companies will be required to pay a 40 percent tax on health care plans valued at the threshold levels of more than $10,200 for individuals and more than $27,500 for family coverage starting in 2018. The threshold levels could go up if the cost of coverage for the standard Blue Cross Blue Shield option in FEHBP rises more quickly than projected.

- The new law will also require any health insurance plan that offers dependent coverage to cover dependent unmarried children until the age of 26. This change will go into effect in roughly six months (in 2011).

- Another change will limit the tax deductible amount for flexible spending accounts. Currently, federal employees can shelter up to $5,000 as pre tax income: in 2013, the new legislation will reduce the annual limit to $2,500.

- Over-the-counter drugs and supplies such as aspirin and bandages will no longer be qualified expenses for FSAs (in 2011).

The legislation also provides for insurance reforms, such as:

- Prohibiting health insurance plans from denying coverage for children who have pre-existing conditions (six months after enactment).

- Barring health insurance plans from denying coverage for adults who have pre-existing conditions (in 2014).

- Prohibiting health insurance plans from dropping people from their plans if they get sick (six months after enactment).

- Requiring new private insurance plans to cover preventive health services without requiring enrollees to cover co-pays and deductibles (six months after enactment).

- Prohibiting health insurance plans from placing lifetime caps on coverage (six months after enactment).

The legislation also makes a number of changes in Medicare, including:

- Phasing in "Medicare Advantage" payment reforms to reduce government subsidies to private insurance companies (starting in 2010).

Health Reform Continued

- Freezing inflation indexing for Medicare B premiums for people with high incomes (in 2011).

- Creating a new opt-out national insurance program for long-term care services, financed through voluntary payroll deductions. After employees pay premiums into the Community Living Assistance Services and Supports Program for five years, they will become entitled to a lifetime benefit averaging $50 a day, depending on the extent of disability (in 2011).

- Increasing the Medicare A payroll tax by 0.9 percent for individuals earning over $200,000 and couples earning over $250,000 (in 2013).

- Adding a 3.8 percent tax on certain unearned investment income for individuals earning over $200,000 and couples earning over $250,000 (in 2013).

(The legislation will also eliminate the doughnut hole for Medicare D prescription drug coverage by 2014. However, this change will have little effect on federal employees and retirees whose FEHBP plans provide equal or better drug coverage.)

The new health care law, according to the nonpartisan Congressional Budget Office is expected to cost $938 billion over 10 years.

The CBO also estimates that the new law will reduce the deficit by $124 billion over ten years, and by over $1 trillion in its second decade.

A CLASS Act

Little has been written about one part of health reform legislation – the Community Assistance Services and Support Act, a voluntary government long-term care insurance program available through employers. While it will not pay the entire cost of long-term or disability care, it will provide modest financial assistance to people who need long-term services and supports.

Working adults will be automatically enrolled in CLASS unless they choose to opt out. After an employee pays monthly premiums to the program for five years, he or she will be entitled to a lifetime benefit averaging $70 day, depending on his or her degree of disability.

Only about 10 percent of older adults have long-term care insurance, and Medicaid assistance becomes available only if one is poor and consigned or limited to a nursing home in most cases. The CLASS benefits, in contrast, can be used to purchase non-medical services and supports necessary to maintain community residence. These may include housing modification, assistive technologies, personal assistance services and transportation.

The program goes into effect next year. The Congressional Budget Office forecasts that CLASS will reduce the federal deficit by $74 billion between 2010 and 2019.

CLASS was authored by the late Sen. Ted Kennedy (D-Mass.) to help people with functional impairments pay for support services while remaining independent, employed and part of their communities.

Other Legislative and Regulatory News

TSP and Unused Annual Leave

H.R. 4865 would permit federal employees and members of the uniformed services to contribute lump-sum payments for annual leave to their Thrift Savings Fund accounts.

The amount of accumulated leave contributions would be capped by the current Internal Revenue Service annual contribution limits. Employees under 50 years of age are now capped at $16,500 a year; employees who are 50 or older may contribute an additional $5,500 for a total of $22,000 a year.

The bill was introduced by Representatives Steven Lynch (D-Mass.) and Jason Chaffetz (R-Utah) in March and is now before the House Oversight and Government Reform Committee.

Private sector employees can now roll the cash value of unused vacation and sick leave into their 401(k) accounts.

Deferred Annuities Legislation

Rep. James Moran (D-VA) introduced legislation (H.R. 4979) to require indexation of deferred annuities for federal employees leaving government service.

Currently, if a federal employee leaves federal service before age 62, the annuity earned must either be deferred until age 62 or contributions the employee made during service must be immediately withdrawn, as is the case with the Foreign Service Retirement and Disability Fund. Because the annuity is not indexed to inflation, many younger employees take out their contributions mindful that if they defer the benefit, it will decrease in value over time.

Sick Leave Credit and FSPS

The 2010 National Defense Authorization Act made significant changes in the retirement rules for employees in the new retirement system, the Foreign Service Pension System. As of Oct. 28, 2009, employees in this system will receive credit for unused sick leave and can reinstate refunded FSPS service credit if they redeposit refunded retirement contributions with interest.

Under the 2010 NDAA, unused sick leave will be counted as service credit in the computation of retirement benefits under FSPS, but not for establishing eligibility for an annuity or in computing the high-three average salary. As a result, sick leave will be used in the computations in the same manner it is used in the old retirement system, the Foreign Service Retirement and Disability System.

Employees who leave the Foreign Service or retire with a right to an immediate annuity, or who die leaving a survivor eligible for a survivor annuity on or after Oct. 28, 2009, will receive credit for 50 percent of their unused sick leave. Those who leave the Foreign Service, retire or die with a survivor annuity on or after Jan. 1, 2014, will receive service credit for 100 percent of their unused sick leave. Those whose annuities have both FSRDS and FSPS components will receive service credit only for sick leave not in-

Other Legislative and Regulatory News

cluded in the calculation of the FSRDS component.

Calculations for service credit for sick leave will be made at the time of retirement. The department has advised former employees who retired since Oct. 28, 2009, and have been waiting for their calculations to be done, that they will have their annuities recomputed in the next two to three months.

Since enacted, FSPS law has provided that employees who leave government service and receive a refund of their FSPS retirement contributions shall lose service credit for the period of service covered by the refund. The 2010 NDAA removes that prohibition, permitting individuals who are re-employed on or after Oct. 28, 2009 to redeposit the refunded amount plus interest and to receive credit for the service reinstated. Redeposits may also be made by survivors entitled to survivor annuities.

FSPS employees may redeposit refunded retirement contributions by logging into the Employee Benefits Information System and completing a Prior Service Request under the "HR Link" module.

FEGLI Elections at Age 65

A retiree has the option of changing his or her Option B and Option C Federal Employee Group Life Insurance coverage before turning 65.

The department sends a letter to each retiree shortly before he or she turns 65, explaining the options. At that time the retiree can mix and match multiples (reducing some of the Option B and/or Option C multiples and leaving others intact. The retiree can also write to the department at any time before age 65 and change from full reduction to no reduction or vice versa. Instructions can be found on page 1 and 2 of the instructions for SF-2818, which can be downloaded at www.opm.gov/**forms**/pdf_fill/**SF2818**.pdf

In addition, a retiree has 30 days from the date of receiving his or her first regular monthly annuity check to change his or her reduction election. However, within the 30 day timeframe the retiree can only change his or her basic coverage to 75 percent reduction or 50 percent reduction; a no reduction option is not allowed.

Legislative and Regulatory News

Deficit Commission

President Obama signed an executive order establishing an 18-member bipartisan commission to recommend policies to reduce the deficit and control federal debt. The goal of the commission, according to the president, is to ensure a deficit in 2015 that is no larger than the cost of interest on the national debt. The recommendations, which will have to be approved by 14 of the 18 commissioners, are due in December of this year. Both Senate Majority Leader Harry Reid (D-Nev.) and House Speaker Nancy Pelosi (D-Calif.) have agreed to put the commission's recommendations to a vote.

In commenting on the initiative, the National Association of Retired and Active Employees cautioned that "federal retirement benefits are fully funded and actuarially sound and should not be part of deficit reduction efforts."

FEHBP Drug Benefit

The House Oversight and Government Reform Federal Workforce Subcommittee has approved a bill (H.R. 4489) to control costs of prescription drugs in the Federal Employees Health Benefits Program and to provide the Office of Personnel Management with more oversight of the FEHBP prescription drug benefit.

Currently, the FEHBP contracts with private insurance companies, which in turn contract with pharmaceutical benefit managers that process pharmacy claims and pay retail pharmacies on behalf of FEHBP carriers. In all, prescription drug benefits cost about $9 billion a year, representing 30 percent of all FEHBP expenditures.

The Federal Employees Health Benefits Program Prescription Drug Integrity, Transparency, and Cost Savings Act would require PBMs to:

- disclose all contract terms and related information to OPM;
- return money they receive from manufacturers for FEHBP business; and
- cap prices paid by health plans at the average manufacturer price.

The bill would also prohibit PMBs from switching drugs without physician consultation, and forbid companies that own both retail drugstores and a PBM from doing business with FEHBP carriers.

As noted by OPM's Inspector General, Patrick McFarland, "the cost structures of the [FEHBP] PBMs are utterly nontransparent" and, as a result, "there is no objective basis to determine whether the terms being offered to an FEHBP carrier by a PBM represent an advantageous arrangement."

OPM Call Letter

In its April 7 call letter to Federal Employees Health Benefit plans, the Office of Personnel Management encouraged the creation of a pilot voluntary suboption within FEHBP that would pay all or part of Medicare B premiums for Medicare-eligible federal annuitants.

OPM explained that FEHB plans would pay Part B premiums for enrollees and provide Medicare gap

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Department News

While generally pleased with the quick and thorough responses from the HR Service Center, a number of retiree members have said that they are unable to open the links in e-mail responses from the HR Service Center. Importantly, one of these links is to a customer satisfaction questionnaire.

According to HRSC, the current case management system employed by HR Shared Services is Universal Trouble Ticket. This system is owned and supported by the Bureau of Information Resources Management and will be phased out in the near future. Because multiple bureaus and offices use UTT, it would be difficult to modify the templates for UTT e-mails on an ad hoc basis.

In any event, according to HRSC, the UTT system was meant to be a short-term solution until a more robust and customizable case management system was identified for use, which has now been done. Once configured and deployed, HR will "own" the case management system and be able to more easily adapt how it functions.

HRSC says that it looks forward to addressing this issue as soon as possible with the new system. Until that time it will continue to advise its annuitant customers that they will be unable to open the web page links within auto-generated e-mails.

We urge the department to take the human resources and financial management needs of retirees into considering when planning new department systems and services.

AFSA Member Activities

Undergraduate Scholarship Established

The Foreign Service Retirees of Southern Arizona disbanded after the death of its president James F. Smith in December 2009, The group's remaining funds of $1,400 were donated to the AFSA Scholarship Fund and will be used to fund a need-based Financial Aid Scholarship in the name of the association in the 2010/2011 school year.

For more information on AFSA's Scholarship Program, please contact Lori Dec, AFSA Scholarship Director at dec@afsa.org or (202) 944-5504 .

Santa Fe World Affairs Forum

Foreign Service retirees settling in northern New Mexico will find they can remain plugged into foreign policy issues through the Santa Fe World Affairs Forum. The Forum is a nonprofit organization, created to broaden and deepen understanding of world affairs, primarily through small, interactive, professionally-led sessions on international issues for a membership of informed individuals.

Visit the organization's Web site at http://sfwaf.org/ or e-mail waforum@gmail.com. Board President and contact person for the Forum is Patricia Kushlis at (505) 550-6392 (cell) and (505) 797-7182 (h). Forum members Kushlis and Patricia Lee Sharpe are known for their blog at www.whirledview.typepad.com.)

The Robert S. Strauss Center for International Security and Law at the University of Texas at Austin is recruiting for an Associate Director. The job description can be found at http://utdirect.utexas.edu/pnjobs/pnjobsvw.WBX?

The Village: A Growing Option for Aging in Place

The Older Population Is Skyrocketing

Between 2006 and 2030, the U.S. population of adults age 65 and over will nearly double from 37 million to 71.5 million. This demographic trend presents major challenges for meeting the needs of the older population who overwhelmingly prefer to receive services and supports within their homes or communities. The Village — a consumer-driven, person-centered approach to aging in place — offers an alternative to institutional care.

The Village

The Village concept aims to support the medical, functional, emotional, social, and spiritual needs of older adults. Residents create Villages to help coordinate and deliver services and supports within their communities. Villages reflect their communities through variations in design, capacity, and operation. Many older adults join these groups because of a desire to remain in their homes and not be dependent on family members and friends.

The Beacon Hill Village, established in Boston in 2001, is one of the most recognized models of the Village concept. What started as a group of residents who wanted to receive services and supports in their homes and communities has now evolved into a national movement. Currently, there are 50 operating Village organizations across the United States and one in Australia. In addition, hundreds of communities worldwide are at various stages of creating a Village.

Villages are committed to maintaining and strengthening members' connections to their communities while providing needed services and supports. While the range of services varies, they typically include information referrals, home health care, access to transportation services, and assistance with household tasks, as well as access to social and educational activities. Transportation and assistance with moving furniture and other handiwork were the most commonly used services among members in five Village organizations in the Washington, D.C., metropolitan area.

The Village concept is *not* a provider model and does not have license requirements. Instead, these are nonprofit organizations governed by a board of directors and operated either by a mix of paid staff and volunteers or solely by volunteers. Staff provide administrative oversight, coordination and delivery of services, or other assistance that a member may need. Volunteers are a critical component of the Village concept — many assist with daily operations or deliver services (e.g., taking a member to the doctor's office, helping with groceries).

Villages also work with prescreened providers to deliver services to members and quality assurance benefits by following up with members regarding the services of a particular vendor or volunteer.

Funding comes from annual membership fees, which may range from $150 to more than $500 per person. The membership fee is based on

the menu of services provided to members, and administrative and other operational costs. Some Villages receive grants and nonmember donations to help subsidize the cost for low-income individuals. The extent to which Villages can offer this benefit generally depends on the level of support they receive from foundations and other grant-providing entities. *Reprinted with the permission of AARP from The Village: A Growing Option for Aging in Place.*

The Village offers an option for meeting the needs of the growing older population by making it possible for people to stay in their communities and "age in place." Neighborhood residents create villages to help coordinate and deliver services and supports within their communities. This consumer-driven and person-centered approach can help delay or even prevent the need for institutional care.

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benefits. FEHB enrollees in this sub-option would not pay Part B premiums, but would continue to pay usual FEHB deductions and co-pays. As a result, benefits would be the same as for non-Medicare enrollees. It remains to be seen whether plans will offer this option.

The option would reduce costs for annuitants and the financial risk assumed by health plans for older and sicker enrollees. The concern, however, is that this could be the first step in creating a separate risk pool for seniors which, in turn, could lead to moving seniors into Medicare and out of the FEHBP.

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