AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

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Crunch Time for Federal Benefits

These are perilous times for federal employees and to a lesser extent, retirees. The deadline for raising the debt ceiling is fast approaching, and Congress and the administration will soon be locked in a fierce battle over the Fiscal Year 2012 budget. One thing is likely: federal employee and retiree benefits will suffer.

Proposals on the Table

The Congressional Budget Office, the House Budget Committee, the Republican Study Committee and the bipartisan National Commission on Fiscal Responsibility have all recommended severe cuts in government services and federal benefits. And a slew of separate bills, some of which propose radical changes in federal benefits, abound. President Barack Obama's presented a budget proposal to Congress in which he touched only lightly on federal benefits. And, after the spring congressional break, the Gang of Six, a bi-partisan group in Congress, will present its budget recommendations. Here are some of the major proposals.

<u>Congressional Budget Office</u>
In the report *Deficit: Spending and Revenue Options,* released on March 10, the Congressional Budget Office recommended:

- Reducing general federal pay raises by a half-percentage point per year. (Savings of $50 billion through 2021.)
- Changing the Federal Employees Health Benefit Program from a defined benefit to a voucher-based plan. Rather than paying about 72 percent of health premiums, the government would contribute about $5,000 per individual premium and $11,000 per family premium. (Savings of $32 billion over a 10 year-period.)
- Changing the computation of the cost-of-living adjustment for federal and military annuities. (Savings of $24 billion by 2021.)

<u>House Budget Committee</u>
On April 15 the House of Representatives adopted the budget introduced by the Chairman of the House Budget Committee Rep. Paul Ryan, R-Wis., H. Con. Res. 34 for FY 2012, which would save $375 billion over 10 years, would:

- Impose a five-year freeze on federal salaries
- Permit the federal government to hire only one new employee for every three federal workers who retire. (Reduction of the work force by 10 percent by 2014.)
- Require federal employees to pay for half of the defined benefit they receive at retirement. (FERS contributions would increase from 0.8 percent of payroll to 7 percent.)

Crunch Time Continued

Republican Study Committee

On April 7 the Republican Study Committee released a report titled *Honest Solutions,* recommending:

- Reducing the federal work force by 15 percent through attrition
- Changing the method for computing cost-of-living adjustments. (Savings of $300 million in FY 2013 and $24 billion over 10 years.)
- Deferring cost-of-living adjustments for federal employees who retire before age 62 until they reach 62. Now federal employees receive COLAs upon retirement. (Savings of $17 billion over 10 years.)

Fiscal Commission

Last fall the chairmen of the Fiscal Commission recommended:

- Freezing federal civilian pay at 2010 rates for three years.
- Reducing the federal civilian work force by 200,000 over the next 10 years.
- Deferring cost-of-living adjustment for federal retirees who retire before age 62 until 62. At age 62 retirees would be entitled to a one-time catch-up adjustment at age 62 to re-establish what they would have received with interim COLAs.
- Using a high five-year, rather then high three-year, average salary base to compute annuities.
- Increasing federal employee contributions to cover half the cost of retirement benefits.
- Changing COLA computation by adopting use of the chained CPI calculation to hold down COLA growth for Social Security, military and civilian retired pay.

President Obama's Budget Proposal

In his FY 2012 budget presented to Congress in February, President Obama proposed freezing federal civilian salaries for the second year in a row and cutting nondefense discretionary spending by $400 billion. He did not include other plans to reduce federal retirement and health benefits. Although President Obama's deficit reduction plan unveiled on April 13 does not include provisions to cut federal pay or benefits, changes to federal retirement plans are "on the table" according to an official at the Office of Management and Budget. The president also asked Vice President Biden to lead a new round of budget talks with 16 lawmakers.

Gang of Six

Six senators, three Republicans and three Democrats, have been meeting for months to develop a compromise debt-reduction package. The package, which is rumored to be close to completion, may be unveiled after the Easter recess.

More Budget Concerns

Proposed Medicare Cuts

House Budget Committee Chairman Paul Ryan's proposed 2012 budget would significantly alter the Medicare system. It would change the program from one with defined benefits to one of premium support payments to private health insurers.

The government would pay a specific amount to health insurers, an amount that would be increased each year by the amount of inflation, and Medicare enrollees would pay for premiums and costs above that amount.

According to a Congressional Budget Office analysis, the costs of Medicare coverage for a 65-year-old man in 2022 would be $20,500. The government would pay $8,000 or 39 percent of this and the enrollee would pay $12,500, more than twice what an enrollee would pay under traditional Medicare ($5,630). In addition, the CBO concluded that an enrollee with average earnings who retires in 2022 would have out-of-pocket Medicare expenses equal to about half of his or her Social Security income.

In addition, the Ryan proposal would gradually increase the age of eligibility for Medicare to age 67 in 2022 and repeal provisions of the Affordable Health Care Act that would have closed the doughnut hole for the prescription drug benefit.

See the Congressional Budget Office *Long-Term Analysis of a Budget Proposal by Chairman Ryan,* April 5, 2011.

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Changing the COLA Computation

The Fiscal Commission has proposed changing the methodology used to calculate cost-of-living adjustments. Specifically, it proposes use of a chained Consumer Price Index calculation, which would result in smaller cost-of-living adjustments in Social Security benefits and military and federal civilian annuities. The chained CPI, according to its proponents, recognizes that annuitants change their buying patterns and buy successively less expensive substitutes as prices rise.

The Bureau of Labor Statistics estimates that the chained CPI would reduce COLA increases by about one quarter of one percent a year. While this may seem a small adjustment, it would compound significantly over time. For example, the Military Officers Association of America reckons that the chained CPI would result in a 10 percent reduction in annuity payments for an 80-year-old who retired at age 42. The compounding could be particularly significant for Foreign Service personnel who can be eligible to retire at age 50.

Another Doc Fix ?

Unless Congress acts before Jan. 1, physicians will face a 28.3 percent cut in Medicare reimbursement. Recognizing that the payment formula is flawed, Congress has provided a number of last-minute temporary fixes in recent years. A permanent solution would cost about $330 billion over a 10-year period.

What Can You Do?

Tell Your Story

What can we – as members of AFSA and as federal employees and retirees – do in the face of possible federal benefits cuts.

A recent poll conducted by a major federal union indicates that the American public is not sympathetic to complaints about cuts in federal pay and benefits, but it is concerned about the loss of essential or vital public services, the services people rely on. The poll also reveals that there is a great deal of ignorance about what actually constitutes government services and about the employees who provide these services.

AFSA and other federal and postal unions have started campaigns to explain what individual federal employees do in order to associate a human face with government services. The National Active and Retired Federal Employees Association has taken the lead in a joint effort with other federal and postal unions and associations, including AFSA, in a major media campaign.

One way in which you can help is to write a short (three to five sentence) description of how you assisted Americans abroad, perhaps because of an evacuation, arrest or disappearance. Or you may have performed heroic service while serving overseas or protected or promoted U.S. commercial interests. Give us stories that highlight the unique, exciting, dangerous and valuable nature of Foreign Service work, particularly in the recent past. Send your stories to FSprofiles@afsa.org.

AFSA Joins With Other Unions

AFSA joined with 21 other federal and postal unions in a letter to members of the House of Representatives, expressing opposition to the proposed cuts in federal pay and retirement benefits in the Fiscal Year 2012 Concurrent Resolution on the Budget (H. Con Res. 34).

Cutting federal pay and retirement benefits by $375 billion over 10 years goes too far, the unions explain, and undercuts the need to attract and preserve the best federal work force.

AFSA Rally To Serve

On April 15, AFSA organized a rally to Serve America just hours before Congress averted a shutdown by agreeing to a one-week extension of a continuing resolution. Diplomats declaring their commitment to serving gathered in a park across from the department, while AFSA and American Federation of Government Employees talked about the critical function played by diplomacy. The event attracted wide international and domestic media coverage.

For Your Information

Medical Records Breach

According to a memorandum sent to State Department employees, a former contractor in the Office of Medical Services improperly obtained information from the department's medical database. The records relate to the period between March 1990 and April 2010.

The information obtained by the contractor includes personally identifiable information, including names, addresses, Social Security numbers and employing agency. It also includes medical information, such as medical clearance status (worldwide, limited, pending or not cleared) and medical clearance blood test results. No financial information or information about medical services overseas was included.

According to the department, there is no indication that the information was passed on to others. (Charges have been brought against the contractor and federal agencies continue to investigate the breach.)

There are several steps you can take to protect yourself. First, you can ask the department to confirm whether or not your name was in the medical database by writing to medprivacy@state.gov. Second, you can obtain an annual credit report from www.annualcreditreport.com to determine whether there were circumstances that you were unaware of that have adversely affected your credit rating.

Although paper medical records of retirees are archived one year after retirement, retiree database records are maintained indefinitely.

CPI on the Rise

Largely because of increases in the prices of fuel and food, the March Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) rose 1.1 percent last month. There have been increases in the CPI-W for the past three months.

The index is now 2.1 percent above the 2008 third quarter average. Generally, the cost of living adjustment (COLA) is based on changes in the consumer price index from the third quarter of one calendar year to the next. However, because there were no COLA increases in 2009 and 2010, the basis for measurement is the 2008 third quarter average.

Useful Department Contacts

HR SERVICE CENTER

- *FEHB and FEGLI Services*
- *TCC—Temporary Continuation of Coverage*
- *General questions on retirement*

E-mail: HRSC@state.gov
Toll-free telephone: (866) 300-7419
Outside U.S.: (843) 308-5539

OFFICE OF RETIREMENT

- *Information/ counseling*
- *Calculation of annuities and survivor benefits*
- *Determination of former spouse benefits*
- *Reporting employment and federal service*

E-mail: RETServices@state.gov
Telephone: (202) 261-8960
Toll-free telephone: (866) 224-9053

PAYROLL OFFICE

- *Issuance of final salary/ annual leave*
- *Lump-sum payment*
- *Notification of retirement to TSP*
- *W-2/ annual tax report/salary*

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FYI Continued

Federal LTC Open Season

Open season for the Federal Long Term Care Insurance Program began on April 4 and ends on June 24. This is the first abbreviated underwriting opportunity for eligible non-enrolled applicants since 2002.

Active-duty federal employees and their spouses, and same-sex domestic partners of civilian work force members who have submitted a form affirming this status to the partner's employing agency are eligible to file abbreviated applications. This means they will be asked fewer questions about their state of health than is ordinarily the case. Non-enrolled annuitants and other qualified relatives can apply for coverage at any time but must complete a full underwriting application.

According to Jessie Stone, the executive director of the American Association for Long-Term Care Insurance, "The open enrollment period is a significant opportunity for those who already have some health issues and who may not health qualify for private LTC insurance. "

FLTCIP cautions that premiums are based on the age of an applicant at the time an application is received, that certain medical conditions will prevent some people from being approved for coverage, and that premiums are set with the expectation that they will be sufficient, though this is not guaranteed.

You can find an information kit for the FLTCIP Open Season at www.ltcfeds.com/documents/index.html#infokit.

TSP Roth Option Delayed

The Thrift Savings Plan had originally planned to introduce a Roth 401(k) option in January 2012.

In order to give federal payroll offices more time to prepare and test major software changes, TSP will delay the debut of this option until at least the second quarter of 2012.

The Roth option allows employees to invest income that has already been taxed and will not be taxed on withdrawal. Other TSP fund options, in contrast, are funded with pre-tax dollars that are taxed upon withdrawal.

Department Contacts Continued

Payroll Office Continued
E-mail: payhelp@state.gov
Telephone: (843) 308-5656
Toll free: (800) 521-2553

Retirement Accounts Division

- *Delay or non-receipt of annuity check*
- *Address, bank, withholding changes*
- *1099R/ annual tax report/FS annuity*
- *Cost-of-living adjustments*
- *Monitoring WAE salary/ annuity cap*
- *Amount of total retirement contributions*
- *Refund of excess-35 year contributions*

E-mail: payhelp@state.gov
Telephone: (843) 308-5552

Annual Social Security Statements

Most of us are used to receiving annual Social Security statements that list our lifetime earnings and estimates of our retirement benefits in the mail. The Social Security Administration has announced, however, that it will discontinue mailing out statements to workers who are 25 years of age and older. Later this year It will resume mailing statements to workers near retirement, those who are 60 and older and are not receiving Social Security benefits.

This economy will save $30 million in FY 2011 and $60 million in FY 2012.

The SSA said that it is working on providing access to statements on-line.

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