



AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

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The New Congress: What's Next?

Although the fiscal cliff agreement delayed sequestration for two months, the agreement—which focused most significantly on tax rates—did nothing to allay concerns about cuts to federal benefits.

Congress and the Administration face three debt negotiation deadlines in quick succession, all of which provide opportunity to reduce or eliminate some combination of federal benefits.

First, the debt ceiling, which is now being avoided through the use of extraordinary accounting procedures, will be reached by late February. Next, unless Congress reduces expenditures in the amount required by the Budget Control Act, deep sequestration cuts in defense and non-defense programs will go into effect on March 1. Finally, the current continuing resolution that funds government operation will expire on March 27, raising the prospect of a government shutdown, furloughs of federal workers, reductions in force and cuts in government services.

There will be cuts in federal employee benefits. Quite simply, federal benefits are low-hanging fruit, an easy, very small fix, given the size of the debt.

At this point, however, it is difficult to predict what those cuts to cut federal benefits will look like.

Dozens of wide-ranging and varying proposals for cutting benefits were advanced during the 112th Congress. These included proposals to increase federal employee contributions towards retirement, base calculation of annuities on the high five years of employment, eliminate the defined annuity benefit, eliminate the annuity supplement, increase employee and retiree health premiums, change the calculation used for the cost-of-living adjustment and reduce the federal work force.

Although federal employees and retirees have champions in Congress, the overall mood is anti-federal employee, particularly in the House. This antipathy persists despite the fact that federal employees—the only group so far to have done so—have already absorbed more than \$103 billion in benefit cuts though pay freezes and increased retirement contributions.

AFSA, both on its own and jointly with the Coalition of Federal and Postal Unions, will continue to work to convince Congress and particularly its new members that federal employees and retirees have already contributed more than their fair share to debt reduction.

As part of this effort, we will call on AFSA members to contact their senators and representatives, particularly those members who are new to the Hill.

More on the Fiscal Cliff Agreement

The Doc Fix

The cliff agreement also provided a one-year “doc fix” provision to avert a 27-percent cut for doctors who treat Medicare patients. To pay for this, hospitals who treat Medicare and Medicaid patients will see a \$15 billion cut in payments over the next 10 years.

The problem dates back to the Balanced Budget Act of 1997. As part of that bill, Congress passed the sustainable growth rate formula, which tied doctor payments to the gross domestic product or economic growth.

For the next several years, the economy grew quickly and doctors received significant increases in their payments. However, in 2002 the economy slowed and the SGR moved into negative territory. Congress permitted a cut in physician payments that year, but every year since 2003 it has passed temporary legislation to defer the cuts. The SGR is cumulative, so the cuts have grown from year to year. According to the Congressional Budget Office, a one-year fix would cost \$25 billion and freezing payments for 10 years would cost over \$240 billion in additional payments to physicians.

Advocates for the health care industry have promised to continue to pressure Congress to find a long-term solution for doctor payments. Aside from the question of fair compensation, there is concern that failure to find a long-term solution that will drive doctors to turn away new Medicare patients and perhaps even drop existing ones. *Matt Sumrak, Associate Coordinator for Retirees*



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More on the Fiscal Cliff

Other Cliff Agreement Provisions

The cliff agreement also provided for:

- A permanent fix to the alternate minimum tax. Although the AMT initially was designed to make sure that the wealthiest taxpayers paid their fair share of taxes, it was not indexed for inflation. As a result, more and more middle-class taxpayers were required to pay the AMT, which is higher than the customary tax rates. The agreement permanently indexes the AMT for inflation;
- A one-year extension to unemployment insurance;
- An extension of marginal tax rates on annual family income up to \$450,000 and increases taxes on top capital gains and dividends to 20 percent, among other tax provisions.

A Pay Freeze?

President Obama issued an executive order providing for a pay raise of 0.5 percent for federal employees in 2013. The increase would go into effect the first pay period after March 27 if a budget agreement is reached.

At the end of the last session, the House voted to extend the federal pay freeze through 2013. The Senate, however, did not vote on the bill. As a result, proposals to extend the pay freeze will have to be reintroduced.

Alternatively, an extension of the freeze could become part of a larger debt reduction bargain.

Payroll Tax

As part of the fiscal cliff agreement, Congress did not extend the 2011–2012 payroll tax holiday. The tax holiday had decreased the employee share of contributions to Social Security from 6.2 percent to 4.2 percent of earned income for two years.

The employee tax rate for Social Security has now reverted to 6.2 percent for this tax year. Additionally, the amount of income that is subject to Social Security taxes is capped at \$113,700 for 2013.

The G Fund and the Debt Ceiling

The Thrift Savings Plan has advised plan participants of the following:

In the event that the U.S. Government reaches the statutory federal debt limit, the federal government may temporarily be unable to issue new securities to the G Fund because to do so would exceed the present debt limit. However, G Fund investors are always fully protected and G Fund earnings are fully guaranteed by the federal government due to statutory protections in the Thrift Savings Plan Investment Act of 1987. This protection, known as the “make-whole” provision, will work to ensure that G Fund investors are completely unaffected by the limitation on securities issued by the U.S. Treasury. G Fund account balances will continue to accrue earnings and be updated each business day, and loans and withdrawals will be unaffected.

ADVOCACY 2013: FROM THE POST TO OUR NATION'S CAPITAL

Given AFSA's formidable reputation and solid brand name as experts on diplomacy, the Advocacy Department has developed a constituency/issue-driven strategic outreach and mobilization plan to further educate the 113th Congress and the American public about the critical role of the Foreign Service in promoting America's national security and economic prosperity.

The 113th Congress is already considered the most diverse in U.S. history with more women and minorities elected than ever before. The freshman class includes 12 new senators and 67 new representatives. Here are some of the most relevant changes by committee:

House Foreign Affairs Committee: Representative Ed Royce (R-Calif.) was elected chairman and Representative Elliot Engel (D-NY) was elected as ranking member.

Senate Committee on Appropriations: Senator Barbara Mikulski (D-Md.) is the new chairman. Senator Thad Cochran (R-Miss.) will continue in his role as ranking minority member vice chairman.

Senate Foreign Relations Committee: Although Senator John Kerry (D-Mass.) is the current chairman, his nomination to be Secretary of State makes it likely that Senator Bob Menendez (D-N.J.) will succeed him. The new ranking member is Senator Bob Corker (R-Tenn.).

House Committee on Appropriations: Representatives Harold Rogers (R-Ky.) and

Kay Granger (R-Texas) will continue as chairs of the committee and the Subcommittee on State, Foreign Operations, and Related Programs, respectively. Representative Nita Lowey (D-N.Y.) is now the new ranking member for both the committee and the subcommittee.

One of the most interesting changes in the 113th Congress has to do with the number of freshman members of Congress assigned to the House Foreign Affairs Committee by each party. The Republican majority assigned 14 and the Democratic minority assigned 7. AFSA is currently working to engage the new members through a series of meetings and educational events.

AFSA is also actively advocating on your behalf with regard to issues including personnel security (i.e. attacks on Benghazi), financial records online privacy (i.e. the STOCK Act), Overseas Comparability Pay, and many others.

We are also paying particular attention to the fiscal cliff and budget negotiations. The Fiscal Year 2013 continuing resolution provides a total of \$55.2 billion for International affairs. That amount is somewhat higher than the Senate's \$53.7 billion level and significantly higher than the House's \$49.6 billion level.

To learn more about our advocacy efforts, please visit www.afsa.org or contact either Javier Cuebas, Director of Advocacy (Cuebas@afsa.org) or Clint Lohse, Legislative Assistant (lohse@afsa.org). *Javier Cuebas, Director of Advocacy*

AFSA Advocacy and Your Benefits

Although comprehensive discussion of how to fairly craft Social Security reform seems to be off the table, one change — which would particularly disadvantage the elderly and poor and which is being considered in isolation — is gaining momentum.

This proposal would change the current formula for calculating cost-of-living adjustments to a Chained Consumer Price Index, gradually decreasing the growth of benefit programs and increasing tax revenues.

The chained CPI, according to its proponents, offers a more realistic assessment of inflation because it recognizes that annuitants change their buying patterns and buy successively less expensive substitutes as prices rise. Opponents argue that the chained CPI, like the current CPI, is not an accurate measure of inflation for the elderly because it underestimates the costs of their health care.

Some proponents, including the Center on Budget Priorities and Policies, support switching to the chained CPI to adjust federal benefits and taxes if steps are taken to prevent significant hardship. These steps include: (1) a modest benefit (or bump) for longtime Social Security beneficiaries who would otherwise face compounding reductions in the growth of benefits; and (2) an exemption for the Supplemental Security Income Program for the nation's poorest elderly and the disabled.

AFSA, like many other federal unions, is concerned about the prospect of adoption of the chained CPI, particularly in the absence of safeguards for employees in the new retirement system, whose retirement benefits already face other possible reductions, and for the poor and the disabled. In addition to coordination on this issue with other unions in the Federal and Postal Union Coalition, AFSA President Susan R. Johnson sent the following letter to President Barack Obama on Dec. 18th:

Dear President Obama:

On behalf of the American Foreign Service Association and the 31,000 active-duty and retiree members of the Foreign Service that we represent, I ask you to protect the current method of calculating the annual cost-of-living adjustment for federal civilian and military retirees and Social Security beneficiaries.

Substitution of a "chained CPI" calculation for the current index would not be a technical adjustment. Rather it would substantially reduce current and future benefits. While all retirees and beneficiaries would be adversely affected by the chained CPI, those who retire at younger ages (Foreign Service, military and law enforcement retirees and the disabled), the poor and those who live the longest would be most affected.

The chained CPI would reduce COLA increases by about 0.3 percent a year. While this may seem a small adjustment, it would compound significantly over time. The reduced COLA would cost a typical 65 year-old about \$130 a year. But by the time that senior reaches age 95, his or her benefit would be reduced by almost \$1,400 annually, 9.2 percent less than the or she would have received under the current COLA index.

About 40 million Americans are kept out of poverty by Social Security. Reducing their benefits would impose real hardship, particularly for the oldest and poorest. Contrary to the claims of the chained CPI proponents, these beneficiaries would not be able to make purchasing adjustments or "substitutions." Their choices are not between beef and chicken, but between adequate food, medical care and a decent place to live.

Because the chained CPI would also reduce yearly adjustments, the standard deduction and income

AFSA Letter Continued

tax brackets, it would increase taxes, mainly for lower and middle-income taxpayers. A Joint Committee on Taxation report prepared for Congress concluded that the tax liability would increase by 14.5 percent for incomes between \$10,000 and \$20,000, 3.5 percent for incomes between \$20,000 and \$30,000 and 0.1 percent for incomes of \$1 million and above.

We urge you to protect the hard-earned benefits of federal civilian and military retirees and Social Security beneficiaries by opposing the chained CPI. If any change were to be made in the cost-of-living calculation, it should be to develop a more realistic measurement for the elderly, one which takes into account the disproportionate amount seniors spend on health care. Thank you for your prompt attention to this matter.

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AFSA is pleased to announce that Randy Urban of the Thrift Savings Plan will speak about TSP at AFSA on Monday, Feb. 11 at 2:00. P.M. To register, please e-mail events@afsa.org

You have traveled the world and met many interesting people. Why not continue!

If you move to a Goodwin House community, you will find many other AFSA retirees who have shared experiences. In addition, you can lock the door and leave to go travel without worrying about leaving your home unattended. No more worries about a burst pipe and your home flooding, or security issues while you are away. And the best part is you will know that you are making a good financial decision.

Call us today to attend an informational luncheon so you can learn more about our communities in Alexandria and Bailey's Crossroads. Both boast beautiful apartments with amazing views and lots of wonderful amenities and a reputation that puts Goodwin House at the top of smart consumer's lists.



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AFSA High School Essay Contest

AFSA is pleased to announce that its national high school essay contest has begun its fifteenth year. The contest, open to U.S.–citizen high school students whose parents are not in the Foreign Service, was inaugurated in 1999 to commemorate the 75th anniversary of the association. The goals of the contest are to raise the profile of the Foreign Service, identify outstanding students and promote the Service as a career choice.

Once again, AFSA has partnered with the **Institute for Shipboard Education** (www.semesteratsea.org) to offer the winner a fully funded Semester at Sea educational voyage upon entry into an accredited college or university. The winner will also receive a \$2,500 first prize along with a paid trip to Washington to meet the Secretary of State, who customarily presents the winning certificate.

This year's contest asks students to assume the role of a U.S. diplomat to Haiti, Greece, Libya, Burma/Myanmar,

India or Kenya. Their essay must outline how they would address major policy issues between the U.S. and their chosen nation. Through independent research, students must first determine what those issues are and, secondly, define the resources available to them at post as a member of the U.S. Foreign Service.

The deadline for submissions is on April 15, 2013. The essay winner will be announced in early summer 2013. If you know of students or teachers who would be interested in the contest, please direct them to the Web site. However, please note that children of Foreign Service employees are ineligible.

For more information, rules and guidelines, and to read previous winning essays, visit www.afsa.org/essaycontest or contact Perri Green, AFSA's Coordinator for Special Awards and Outreach at green@afsa.org or (202) 719-9700.

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AFSA Scholarships

Applications are invited to apply for:

- Need-based college scholarships for undergraduate college study in the 2013-14 school year, and
- 2013 Merit Awards, recognizing current high school seniors' art and academic accomplishments

Go to www.afsa.org/scholar for complete details. Beginning this year, AFSA scholarships and awards are a benefit of AFSA membership, so only tax-dependent children of AFSA members who are or were Foreign Service employees are eligible to apply. Students apply online and can track their application status.

The deadline to apply for the high school senior merit awards is **Feb. 6**, and the need-based undergraduate financial aid scholarships is **March 6**. Unfortunately, grandchildren of Foreign Service employees are not eligible to apply.

Contact Lori Dec, AFSA Scholarship Director at (202) 944 5504 (or dec@afsa.org).

Wanted: AFSA Merit Award Judges

AFSA is searching for volunteers to serve as Merit Awards judges in February and March to review and score high school seniors' academic or art merit award applications.

We are looking for AFSA members who live in the Washington, D.C. area, are comfortable using computer technology, and can give about 12 hours of time to judge student submissions over a two-week period. Art Merit judging will take place in early February and Academic Merit judging will take place in early March. Judges attend a 1 1/2 hour orientation session to review the scoring instructions and learn how use the online scoring system along with a one-hour final panel meeting at AFSA to determine winners and finalists. Student winners receive \$1,000 and \$2,000 prizes.

Consider giving your time (especially if you have talents in the arts) to this worthwhile activity and meet similar Foreign Service colleagues like yourself. To explore this further contact Lori Dec, AFSA Scholarship Director, at (202) 944 5504 or dec@afsa.org.