



AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

American Foreign Service Association, 2101 E Street NW, Washington DC 20037
Web: www.afsa.org E-mail: afsa@afsa.org Phone: (800) 704-2372

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What's Next: Congress and Your Benefits

Over the past year, and particularly recently, members of Congress have offered a flurry of bills to reduce or eliminate federal benefits and cut the federal work force. Many are individual bills. What remains to be seen is which of these proposals will influence the conference committee before (and if) it reaches a compromise on the extension of payroll tax cut in late February. It is also difficult to predict which proposals, including bills designed to derail sequestration (automatic across-the-board cuts), will be incorporated into major bills that will shape the 2013 budget negotiations.

Conference Committee

To date, the conferees have agreed that the Social Security payroll tax cut of 2 percent should be extended through the end of the year. They also agree that long-term jobless benefits should be continued in some form and that the existing "doc fix" should be extended to forestall a pay cut for physicians who treat Medicare patients. What has not been agreed upon is how to pay for the legislation, particularly if the Republicans do not agree to increasing the deficit. Since there are only two weeks remaining until the current two-month extension ends, there may be another short-term extension in the works.

Recent Legislative Proposals

Extension of Pay Freeze through 2013 On Feb. 1 the House passed a bill to freeze federal employee and Congressional pay through 2013. The bill was adopted by a vote of 309 to 117 with 72 Democrats in favor. Rep. Chris Van Hollen, D-Md., has intro-

duced alternate legislation (H.R. 3858), which would freeze congressional pay without tying it to a federal pay freeze.

House Republicans defended the freeze, citing a recent Congressional Budget Office report that found federal workers made more than private sector employees on average in pay and benefits. (See page 2) NARFE President Joseph A. Beaudoin expressed disappointment, noting that "most federal workers are paid between \$25,000 and \$75,000 a year." Congressmen, in contrast, earn \$174,000 a year.

Suspension of Step Increases The 2012 Honest Budget Act (H.R. 3844), sponsored by Rep. Martha Roby (R.-Ala.), would make it difficult to pass appropriations bills without first approving a budget. The bill would also prevent federal workers from receiving within-grade step increases through 2012. Sen. Jeff Sessions, R-Ala., introduced a similar bill (S. 1651) prohibiting step increases for feds through 2012.

Eliminating Defined Pensions On Feb. 7 the House Oversight Committee adopted H.R.3813, which in its current form would increase federal employee annuity contributions and substantially cut annuities for future employees. Rep. Dennis Ross, R-Fla., who introduced the bill stated, however, that H.R. 3813 "may be the vehicle [for]... moving away from the defined benefit plan to a more defined contribution plan."

On Feb. 7 Republicans inserted the stand-alone H.R. 3813 into the massive highway bill (H.R. 7). Both bills would also apply a high-five, rather than high three, average salary calculation for computing

What's Next, Continued

annuities and permit employees to deposit their lump-sum payments for unused annual leave into the Thrift Savings Plan.

Senate Pay Freeze Extension/ Undoing Sequestration

A group of Senate Republicans (Sens. Kelly Ayotte of New Hampshire, John Cornyn of Texas, Lindsey Graham of South Carolina, Jon Kyl of Arizona, John McCain of Arizona and Marco Rubio of Florida) have introduced a bill to extend the federal civilian pay freeze through 2014 and replace every three federal employees who leave government with two hires until the work force shrinks by 5 percent.

The 2012 Down Payment to Protect National Security Act is intended to shield the Defense Department from budget cuts in the event sequestration goes into effect in 2013. According to *Government Executive*, "The legislation estimates the extended freeze and work force reductions through attrition would save the \$110 billion in spending cuts that Defense would have to make in 2013 if sequestration takes effect." We are likely to see a number of additional proposals seeking to undo sequestration in the coming months.

The President's Budget

Last fall President Obama proposed increasing federal employee retirement contributions by 1.2 percent over a three-year period beginning in 2013 and eliminating the annuity supplement for new employees.

Both of these proposals were included in the President's 2013 Budget released on Feb. 13. These changes would save \$28 billion over a 10-year period. President Obama also proposed a 0.5 percent salary increase for federal employees, ending the current two-year federal salary freeze.

The president's budget would not change federal annuity benefits, but would cost federal employees some \$27 billion over a ten-year period, according to the American Federation of Government Employees.

According to press reports, the president acknowledged the debate about the gap between federal and private pay. A recent Congressional Budget Office report found that federal employees receive 16 percent more than their private sector cohorts in pay and salaries. (This report, however, runs counter to the findings of the Bureau of Labor Statistics.) However, the president indicated that the gap found by CBO varied according to educational level. Federal employees with lower educational levels earn more than their private counterparts and federal employees with more education earn less.

Rep. Van Hollen to Speak

Rep. Chris Van Hollen, D-Md., will speak at AFSA on Wed., March 8 at 4 p.m. about federal benefits, the budget, the foreign affairs budget and his Foreign Service upbringing. Rep. Van Hollen represents Maryland's 8th district and is the ranking Democrat on the House Budget Committee and member of the "super committee" last fall. This event is presented as part of our Booz Allen Hamilton-sponsored speaker series "A New Frontier in Diplomacy and Development: People and programs." RSVP to events@afsa.org.

AFSA and Your Benefits

AFSA is an active member of the Federal and Postal Union Coalition. Composed of more than two dozen federal and postal unions that represent over five million members, the coalition closely monitors what is happening in Congress and works to protect federal benefits on the Hill through lobbying and relaying our concerns to decision-makers.

AFSA and Your Benefits, Continued

As mentioned previously, a standalone bill that proposes significant cuts in federal benefits has been inserted into a major highway bill (H.R. 7).

That bill provides that the cuts in federal benefits would be used to pay for infrastructure costs. In so doing, it pits the creation of jobs against federal benefits.

As a rapid response, the Federal and Postal Coalition sent a letter on Feb. 10 to all members of the House of Representatives, urging them to reject the American Energy and Infrastructure Jobs Act (H.R. 7) *in its current form*.

The coalition asserted that the bill as now drawn is “an attempt to require public employees to bear the burden of financing public infrastructure, setting a dangerous precedent that civil servants should serve as the ‘pay for’ regardless of whether the legislation impacts the federal workforce.”

Noting that federal workers have already contributed \$60 billion toward deficit reduction through the current two-year pay freeze, the letter notes that the federal retirement benefit cuts added to H.R. 7 would total an additional estimated \$44 billion.

Specifically, these cuts would: (1) Nearly triple required pension contributions for most current federal and postal employees; (2) Require new federal and postal employees to pay five times more toward their pension contributions; (3) Slash new federal and postal employee pensions by over 40 percent; and, (4) Break agreements to provide Social Security supplements for current federal and postal employees who retire before age 62.

Things are in flux in the House of Representatives. H.R. 7 is now the subject of some 300 proposed amendments, as well as procedural maneuvers.

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The Full Cost of the Pay Freeze: Unintended Consequences?

In talking about the pay freeze – both current and proposed – legislators have focused on short-term savings for the federal government. The two-year freeze now in force will save the government about \$60 billion over a 10-year period. And, extending the freeze for another one, two or three years continues to tempt Congress.

What is less clear is how much this freeze will cost employees over their lifetimes and save government over the long term.

The impact is not confined to the two-year loss in salary increases. Rather, the money that employees are now losing is a permanent reduction in salary. This means that over time salaries will grow more slowly and finally the high three (or possibly five) year basis for calculating annuities will be reduced. The loss will compound over time, resulting in lower annuities. And in retirement, cost-of-living adjustments based on reduced annuities will be lower.

An AFL-CIO union, the International Federation of Professional and Technical Engineers, has published a pay freeze calculator which the union maintains will determine how much salary employees will lose, based on their current salaries and assuming a 2 percent inflation rate.

The calculator can be found at www.ifpte.org/calculator/. If you are interested, you can enter your current salary and the calculator will produce a table showing salary loss for both a two and three-year pay freeze over the course of twenty years.

Using the calculator, a \$75,000 salary would lose \$70,706.89 under the current two-year freeze and \$102,825.36 under a three-year freeze over a 10-year period; a \$100,000 salary would lose \$94,275.86 under the two-year freeze and \$137,100.48 under a three-year freeze; and a \$150,000 salary would lose \$141,413.79 under the

two-year freeze and \$205,650.72 under a three-year freeze.

The calculator looks only at salaries: it does not take into account the fact that future cost of living adjustments will be less over time because they will be based on lower annuity amounts.

This effect would be further exacerbated further by adopting a proposed change to how the COLA is calculated under which a chained Consumer Price Index would result in smaller cost-of-living adjustments in Social Security benefits and military and federal civilian annuities.

The Bureau of Labor Statistics estimates that the chained CPI would reduce COLA increases by about one quarter of a percent a year. While this may seem a small adjustment, it would compound significantly over time.

The freeze and the resultant reduction in life time earnings and cost of living adjustments in annuities and Social Security benefits would mean significant losses for federal employees and their families. These losses could be exacerbated by a new COLA calculation and other federal benefit proposals, such as increasing employee annuity contributions.

Federal employees and retirees face cuts that are much higher than has been calculated or acknowledged. This frenzied approach to cutting costs is no way to legislate.

To read more about federal benefits and AFSA's participation in the Federal and Postal Coalition, go to Current Issues at http://afsa.org/retiree_services.aspx.

FSPS Annuity Supplement

Some of our members have expressed concern about recent congressional proposals to eliminate the Foreign Service Pension System Annuity Supplement. The proposals range from ones that would eliminate the supplement for all employees (with some job classification exceptions) as early as 2013, while others – including the president’s – would eliminate the supplement only for new hires. It’s too early to predict what version will make it into final legislation. It may be useful, however, to understand more clearly how the annuity supplement works.

The annuity supplement is a benefit paid until age 62 to Foreign Service Pension System employees who retire before age 62 and who are entitled to an immediate annuity. The annuity supplement approximates the value of their FSPS service in calculating their Social Security benefits and is calculated as if they were entitled to receive SSA benefits on the day of actual retirement. The purpose of the supplement is to provide a level of income before age 62 similar to that one would receive at age 62 as part of a Social Security benefit, in order to provide a total retirement benefit roughly equivalent to that of annuitants in the Foreign Service Retirement and Disability System.

Currently, an employee who has at least one year of FSPS service and who voluntarily or involuntarily retires with entitlement to an immediate annuity is eligible for an annuity supplement. This does not include employees who retire at the Minimum Retirement Age with 10 years of service or employees who retire on disability or deferred retirement. The annuity supplement is payable from the date of retirement until the month prior to the month in which the annuitant reaches age 62.

The supplement is computed as if an employee were age 62 and fully eligible for Social Security benefits when the supplement begins. The department first

estimates what the full Social Security benefits for the employee would be. Then it calculates the amount of service under the FSPS and reduces the estimated full Social Security benefits accordingly.

Like Social Security benefits, the annuity supplement is subject to an earnings test. It is reduced if one earns more than the exempt amount of earnings (the minimum level of earnings) in the preceding year. The supplement is reduced by \$1 for every \$2 of earnings over a set level (\$14,160 in 2011). The income limitation does not apply until after the first calendar year in which one receives an annuity supplement. Earnings include income from employment and do not include annuity income, Social Security benefits or investment income. The supplement is not increased by COLAs. The COLA does apply to the supplements of survivors, however.

Worried About Long Term Care? The Federal Long Term Care Insurance Program (FLTCIP) has raised its rates by as much as 25%

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AFSA Sponsored Long Term Care

Upcoming Events

Foreign Affairs Day: The annual Foreign Affairs Day home-coming for State Department retirees is on Friday, May 4 and will feature a morning of discussions followed by an elegant luncheon for 250. If you are on the FAD mailing list, you will receive your invitation by mail in March. When you receive your invitation, please mail in your RSVP card and, if planning to attend the luncheon, your payment check as soon as you receive your invitation to: Foreign Affairs Day, P.O. 58018, Washington, D.C. 20037.

The luncheon sells out very quickly and tickets are reserved on a first-come, first-served basis, when payment is received.

State Department retiree, who have not recently attended and wish to come this year should email foreignaffairs-day@state.gov and provide: full name, date of birth, retirement date, service (Civil Service or Foreign Service), mailing address and cell phone or home number.

Tribute to Excellence. AFSA members have the opportunity to attend the gala Tribute to Excellence dinner sponsored by the Association for Diplomatic Studies Training on Thurs., March 15 at a special admissions rate. The biennial black-tie event will take place in Washington, D.C. and will honor Ambassador Tom Pickering for diplomatic excellence, distinguished author/analyst Robin Wright for advancing knowledge of diplomacy, and the Coca-Cola Company for international business leadership.

Dinner proceeds are important in sustaining ADST's efforts to tell the Foreign Service story through oral histories, books, exhibits, and educational websites, and to support training of American foreign affairs personnel. More information about the dinner may be obtained at (703) 302-6990 or admin@adst.org



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New DC Tax Requirements

The Washington, D.C. Government has issued new withholding requirements on distributions from retirement plans and accounts.

Under emergency legislation effective Dec. 22, 2011, payers of distributions from retirement plans or accounts which are subject to federal withholding and are made on or after Jan. 1, 2012 to District of Columbia residents are required to withhold D.C. income tax at the highest D.C. income tax rate in effect at the time of the distribution. As of Jan. 1, 2012, the highest DC income tax rate is 8.95 percent.

The term retirement plan or account means:

- A qualified employee benefit plan;
- A qualified employee annuity plan;
- A defined contribution plan;
- A tax-sheltered annuity plan;
- An individual retirement account;
- Any combination of the plans and accounts listed above, or
- Any similarly situated plan as defined by the Internal Revenue Code of 1986.

The Office of Tax and Revenue recognizes that this is short notice for this tax change. Payers, however, are expected to implement the change as soon as possible.

For additional information, contact the Office of Tax and Revenue's Customer Service Administration at (202) 727-4829.

AFSA's 2011 Tax Guide is Now Available

The 2011 AFSA Tax Guide, specifically tailored to Foreign Service employees and retirees, is now available to all AFSA members online at http://afsa.org/afsa_tax_guide. It is also included in the February issue of the *Foreign Service Journal*.

Overseas Voting

New absentee voting laws are in effect for the 2012 elections.

Effective immediately, you will no longer automatically receive ballots based on a previous absentee ballot request.

All U.S. citizens outside the United States who want to vote by absentee ballot in the 2012 primary and general elections must complete a new Federal Post Card Application every year if they wish to vote from abroad. States are now required to send out ballots 45 days before an election. No matter what state you vote in, you can now ask your local election officials to provide your blank ballots to you electronically — by e-mail, Internet download or fax, depending on your state. You can now also confirm your registration and ballot delivery on-line. Be sure



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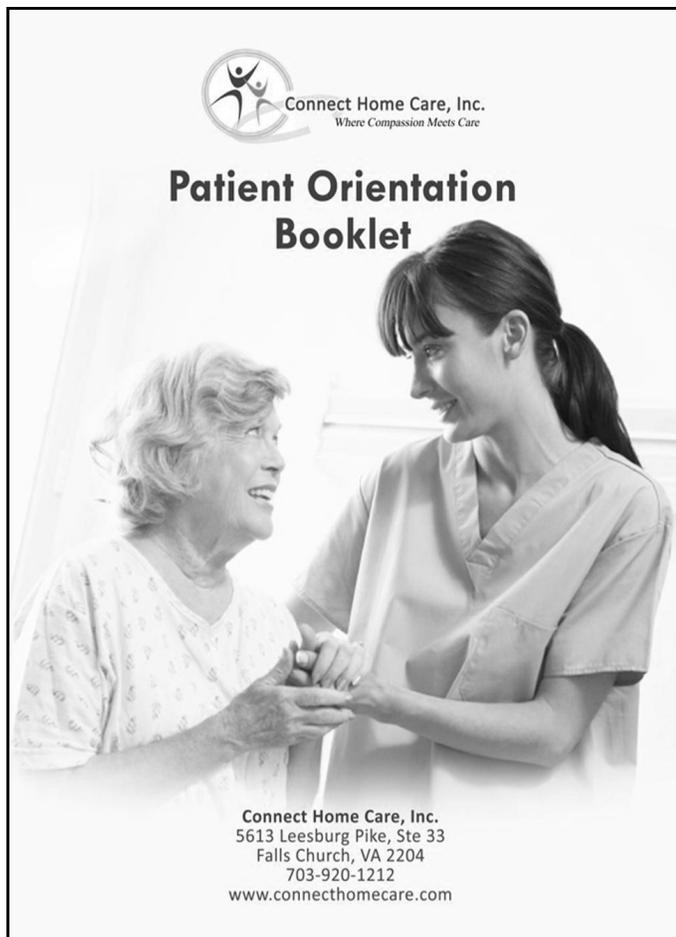


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Overseas Voting

to include your e-mail address on the form to take advantage of the electronic ballot delivery option.

Go to www.overseasvotefoundation.or to find an easy to use, step-by-step instructions about how to obtain your registration-line. You can also learn more at the federal voting assistance program Web site at www.FVAP.gov. Participation in party caucuses by overseas voters is not protected by federal law and requires in-person attendance in most cases.

Bonnie Brown, Retiree Counseling and

Legislative Coordinator

Monday through Wednesday

(202) 944-5509 or 1 (800) 704-2372, ext.

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brown@afsa.org.