AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

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Grassroots Campaign for Federal Benefits

AFSA has been active in the Federal and Postal Union Coalition for several years, monitoring and informing congressional leaders of our concerns about and opposition to proposed cuts in federal benefits.

Despite these efforts, proposals to cut federal benefits and use these savings to fund non-related programs have intensified. As a result, the Coalition came to the conclusion that there is a need to expand its efforts to reach legislators through our collective members in their home districts.

AFSA is now one of more than two dozen federal and postal unions that are participating in a joint grassroots campaign in eight key states or congressional districts during this critical election season. The states include Montana, Virginia, New Mexico, Nevada, Florida, Ohio, Hawaii and Maryland.

The aim of the "America Counts on Us" campaign is to highlight the importance of the federal work force and benefit issues, to inject discussion of these issues into campaigns and to foster coordination among organizations that represent federal employees nationwide.

The Coalition is nonpartisan and will speak only to substantive issues. It will not endorse candidates.

The campaign is scheduled to begin in July and will continue through any lame-duck session. A small national working group composed of key unions and professional organizations is being established, and AFSA is a member of this group.

There will also be local working groups. We hope that regional Foreign Service retiree associations and our AFSA members will become involved with these groups.

A consulting firm is working for the Coalition to develop a timetable of campaign events in key districts, campaign literature and "event-in-a-box" guides, and an effective countrywide message. All participants in the campaign are making financial contributions, generally based on organization size. Participating organizations will have full use of this information and resources for other legislative efforts.

AFSA will be telling you more about the campaign as it develops and inviting you to join in these efforts.

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Foreign Service Know-How: Assistance After Retirement

The author, John K. Naland, is the director of the Office of Retirement at the Department of State. A 26-year Foreign Service veteran, his assignments include Colombia, Mexico and Iraq. He has twice served as AFSA president.

Many retirees spend longer in retirement than in the active-duty Foreign Service. During this second phase of your Foreign Service career, you can still turn to several Department of State offices for assistance. This article summarizes the most common post-retirement issues and points to resources for retirees. This guidance is applicable to Foreign Service retirees from all foreign affairs agencies.

Stay Informed: Each fall, the Department of State's Office of Retirement (HR/RET) mails all Foreign Service annuitants and survivors a 24-page newsletter, containing information on reemployment, survivor benefits, and the Health Benefits Open Season, commonly-needed forms and a list of contact information for nearly a dozen offices that annuitants may need to contact. More detailed retirement-related information can be found on HR/RET's "RNet-Retirement Network" Internet site at www.rnet.state.gov. Resources there include downloadable forms, a searchable database of frequently asked questions and a copy of the most recent HR/RET annual newsletter.

Ask a Question: If questions remain after consulting the Office of Retirement newsletter and RNet, you can contact a Department of State human resources specialist. Your initial point-of-contact is the Bureau of Human Resources Service Center in Charleston, South Carolina. The HR Service Center can quickly answer most retirement-related inquiries. If a question is complex, it will be forwarded to a retirement counselor for response. The HR Service Center can be reached at HRSC@state.gov, (866) 300-7419 (toll free), and (843) 308-5539 (from outside the U.S.).

Update your Records: If you change your address or bank, you will need to provide updated information to the department. The best way to do so is via the Annuitant Express Web site at www.employeeexpress.gov. There you can instantaneously update your annuity account to change your mailing address, modify your direct deposit account and routing numbers, change federal and state tax withholdings, and modify financial allotments. Additionally, you can view and print your monthly annuity statements and annual Form 1099R. If you need assistance using Annuitant Express, contact the Employee Express Help Desk at (888) 353-9450. If you prefer to mail in a written request to update your account, contact the Payroll Customer Support Desk at PayHelp@state.gov or (800) 521-2553 for instructions.

Annuity Supplement: Retirees in the post-1983 FSPS retirement system who are under age 62 receive an annuity supplement. For those who have reached their minimum retirement age (between age 55 and 57 depending on year of birth), that supplement is subject to a reduction because of an annual earnings test. Those retirees must submit a Form DS-5026, “Statement of Entitlement to FSPS Annuity Supplement” to the Department of State each January or their annuity supplements will be terminated in February. The form and associated instructions are mailed to all annuitants in the HR/RET annual newsletter. Unfortunately, each year dozens of annuitants have their supplements cut off due to non-submission of this form. These payments can be restored, but the process diverts staff resources needed to assist other annuitants.

Marital Changes: Post-retirement divorce, marriage, and death of a spouse or former spouse are life events that require making changes in your survivor annuity election and in beneficiary designations for life insurance, annuity, TSP savings and your Federal Employees Health Benefits election. Delays in re-

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porting marital changes to the Department of State will delay, or in some cases permanently prevent, the benefits adjustment and the associated change in your annuity. So please promptly report post-retirement marital changes to the HR Service Center.

Survivor Benefits: If you have not previously done so, please take time to give your next-of-kin a copy of the instructions found in the HR/RET annual newsletter regarding the reporting of deaths of annuitants. It is up to the survivor to immediately report the death and submit documentation to initiate his or her survivor annuity, receive the federal life insurance payout, and continue Federal Employees Health Benefits. To do so, the survivor should contact the HR Service Center, which has a team of specialists who guide survivors through the process.

Reemployment: If you have returned to federal employment on a part-time or full-time basis since you retired, you already know that a variety of rules impact how much you can earn and how long you can work each year. If you have questions about those rules, please consult the HR/RET annual newsletter, the RNet site or the HR Service Center. It is the employee's responsibility to monitor his or her earnings to ensure that they do not exceed the limitation. To avoid exceeding the salary limit, the employee may request a "salary/annuity limitation audit" from the Retirement Accounts Division by e-mailing PayHelp@state.gov.

Thrift Savings Plan: If you are in the FSPS retirement system, then the Thrift Savings Plan is a key component of your retirement income. Since retirement income depends in part on the rates of return of the specific TSP fund or funds in which you invest, from time to time you should review the risk-versus-reward balance in your TSP fund allocations to make sure that it is still appropriate to your specific situation. For more information or to make an inter-fund transfer to redistribute your balance, please go to the TSP website at www.tsp.gov.

Federal Taxes: Because you have already paid taxes on that portion of your annuity that reflects your contributions, a portion of your Foreign Service annuity is not subject to taxation. When you retired, the Retirement Accounts Division sent you a letter detailing the total amount that you contributed (please safeguard that letter). You can calculate the taxable amount of your annuity each year by plugging that number into the worksheet included in the instructions to IRS Form 1040 or Form 1040A or in IRS publication #721, "Tax Guide to U.S. Civil Service Retirement Benefits". Those documents are available on the Internal Revenue Service website at www.irs.gov. Alternatively, you can use the Office of Personnel Management's online calculator at apps.opm.gov/tax_calc/index.cfm. Each January you will be mailed a 1099R showing your previous year's annuity payments and tax withholding. Your 1099R is also available on the Annuitant Express Web site at www.employeeexpress.gov.

Stay in Touch: State Department retirees are invited to join us next May for the 48th Annual Foreign Affairs Day at the Harry S Truman Building (Main State).

Finally, If you know a Foreign Service retiree who is struggling financially, you can refer them to the Senior Living Foundation -- a 501(c)(3) tax-exempt organization that assists retired Foreign Service members and their spouses with financial and other assistance. In addition, the Foundation provides information and assistance in obtaining community, state, federal and private resources For more information, contact the Senior Living Foundation of the American Foreign Service at (202) 887-8170, info@SLFoundation.org, or visit the Web site www.SLFoundation.org.

Married Federal Employees Should Consider Future Social Security Options

Social Security spousal benefits are often one of the greatest areas of confusion for those individuals preparing for their retirement.

Since most federal employees are now covered by the Federal Employees Retirement System (FERS *or FSPS*) in which Social Security retirement benefits will constitute an important portion of their retirement income, this column will discuss Social Security options for married employees.

Before discussing these options, it must be pointed out that in accordance with the Congressional passed Defense of Marriage Act (DOMA), the Social Security Administration (SSA) recognizes heterosexual marriages as the only valid marriages for purpose of Social Security spousal benefits. Same-sex marriages (recognized in seven states and in the District of Columbia) are not recognized as valid marriages by the SSA.

A few rules regarding Social Security retirement benefits are first presented:

- A "fully insured" individual -- an individual who has accumulated 40 or more credits (quarters of coverage) of Social Security -- can collect a Social Security retirement check starting when the individual becomes age 62. By commencing Social Security retirement benefits before the month the individual becomes full retirement age (FRA), the individual's benefits will be permanently reduced. Depending on which year an individual was born, FRA is something between age 65 and age 67. For example, the FRA of an individual born before 1938 is 65; the FRA of an individual born between 1943 and 1954 is 66; and the FRA of an individual born after 1960 is 67. For more information about the FRA, go to http://www.ssa.gov.
- The farther from one's FRA a fully insured individual starts Social Security retirement benefits, the larger the reduction in monthly Social Security benefits. For example, an individual with a FRA of age 66 and who starts benefits the month he or she becomes 62 will be subject to a 25 percent permanent reduction in benefits.
- A spouse of a fully insured individual is entitled to one half of the other spouse's benefits, assuming that the one half of benefits is more than the spouse's own benefit. To be eligible for the half of the other spouse's benefits, the other spouse must be receiving benefits.

The following case study illustrates spousal Social Security options: Husband Bob (B) married to wife, Wilma (W) for 38 years. Bob has paid into Social Security his entire life, starting when he was in the military and continuing throughout his working life. Bob recently reached age 62 and is retired. Wilma has worked for the last 15 years, since their last child left home. She is also age 62 and recently retired. Table 1 shows Bob's and Wilma's Social Security monthly retirement benefits at various ages.

B Monthly Benefit at age 66 (FRA)	W Spousal Monthly Benefit at FRA	W Monthly Benefit at age 66 (FRA)	Adjustment Amount to W Benefit
$2,400	$1,200	$800	$400

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As a spouse, W is entitled to 50 percent of B's FRA benefits, or $1,200. This is because half of B's benefit is more than W's own benefit. Assuming W files for benefits at FRA, W receives the full $1,200. However, B must have filed for benefits in order for W to be eligible to receive the $400 adjustment. If W files for her benefit at age 62 (resulting in a reduction because she is filing before her FRA of age 66) and B has not yet filed, W will receive a reduced benefit of $600 (25 percent less than her full benefit of $800). Note that W is not eligible for the spousal adjustment of $400 until B files for benefits.

Fast-forward four years. B files for his Social Security retirement benefit, thereby making W eligible for an additional retirement benefit from the spousal adjustment.

How much will W receive? In this scenario, SSA looks at her attained age when she became eligible for the spousal adjustment or age 66. Even though she has already filed, the SSA determines the difference between W's FRA benefit and the $1,200 she was entitled to as a spouse, resulting in a $400 adjustment amount that is added to the $600 she was already receiving. W receives $1,000 a month (excluding any cost-of-living adjustments) when she becomes age 66, based on filing starting when was age 62.

The Effect of Starting to Receive Benefits After FRA

Today many individuals are electing to work beyond their FRA and collecting their Social Security benefits when they become age 70. In so doing, their benefits are increased by delayed retirement credits (DRC). For example, any individual born between 1943 and 1954 will receive a DRC of 8 percent per year for every year they delay receiving their first retirement check. Age 70 is the last age for which SSA will pay a DRC. This means that individuals born between 1943 and 1954 can increase their Social Security monthly retirement benefit by 32 percent by delaying the start of their Social Security retirement benefit until age 70.

In the above example, B and W can collect optimal benefits when B files for his Social Security retirement benefit. A little known and legal strategy is "file and suspend" in which the spouse with the higher benefit reaches FRA, files for benefits but requests an immediate suspension of benefits. In so doing, this allows the spouse with the lower benefits to collect on one-half of higher spouse's benefit. This strategy satisfies the requirement that the primary spouse file for benefits, but the SSA does not specify that the primary spouse must collect benefits.

One might wonder if this hybrid approach has an impact on lifetime Social Security retirement benefits. If B and W both live to age 90, with W filing at age 62 and then collecting the spousal benefit at age 66 while B files and suspends at age 66 and ultimately collects benefits at age 70, the impact is significant. This is illustrated in Table 2.

Table 2. Present value of total Social Security benefits collected when B and W start collecting benefits at different ages and living until age 90.

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	Both B and W collect at age 62 B - $1,800 W - $900	Both B and W collect at age 66 B - $2,400 W - $1,200	Both B and W collect at age 70 B - $3,168 W - $1,584	W collects at age 62 her own benefits. B files and suspends at age 66. B files at age 70 W - $600 age 62 to 66 W - $1,000 age 66 to 70 B - $3,168 age 70 W - $1,384 age 70
Present value of Social Security benefits collected until age 90	$613,264	$738,447	$856,837	$893,061

As illustrated in Table 2, the decision about when to receive Social Security benefits for married couples can impact lifetime benefits by hundreds of thousands of dollars. But a downside to the "file and suspend" strategy is that if the spouse with the higher benefit – in this example B – dies after suspending benefits, then the spouse with the lower benefit –in this example W – will not be entitled to the increased spousal benefit. The spousal benefit will be based on the spousal benefit as if he or she files at FRA.

Another little known fact about the "file and suspend" strategy is that if an individual files and suspends, he or she reserves the right to go back to the SSA and request a lump sum payment of all back payments. For example, an individual who elected to "file and suspend" but a few years later had a sudden change of health and needs a lump sum payment to pay medical bills or wants funds to provide for heirs. But in electing a lump sum payment of all back Social Security payments, the individual is effectively filing at FRA and loses the 8 percent DRC he or she may have earned.

The decision of when to start collecting Social Security retirement benefits can be a challenging one for individuals. But the decision is more challenging for married individuals who need to factor in spousal and surviving benefits. In deciding when to start receiving Social Security retirement benefits, married federal employees need to take a holistic approach for developing a retirement plan for their retirement years. All sources of income in retirement -- including CSRS and FERS annuities and accompanying survivor benefits, the Thrift Savings Plan, IRAs, life insurance proceeds, and other private company retirement plans -- as well as one's health and family finances -- need to be considered in deciding when to start receiving Social Security retirement benefits.

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About the Author

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The Thrift Savings Plan's New Roth Option

If you are in the new retirement system - the Foreign Service Pension System - the Thrift Savings Plan is one of three parts of your retirement package, along with your basic annuity and Social Security.

Participating in the TSP does not affect the amount of your Basic Annuity or your Social Security benefit. The money that you save and earn through your TSP account will provide an important source of retirement income. You may elect to contribute any dollar amount or percentage (1 to 100) of your basic pay to the Thrift Savings Plan. However, your annual dollar total cannot exceed the Internal Revenue Code limit, which is $17,000 for 2012.

The new TSP Roth feature will give participants flexibility in the tax treatment of their contributions now and in the future. Roth contributions are taken out of your paycheck after your income is taxed. When you withdraw funds from your Roth balance, you will receive your Roth contributions tax-free since you have already paid taxes on the contributions. You also may not have to pay taxes on any earnings as long as you fulfill these two requirements;

- You are over the age 59½, and
- Your withdrawal is made at least five years after the beginning of the year which you made your first Roth contribution.

This means that if you make your first Roth contribution anytime during 2012, on January 2017, if you are over the age 59 ½, your earnings on your account can be withdrawn tax-free.

Traditional TSP contributions, which lower your current taxable income, give you a tax break immediately. They grow in your account tax-deferred, but when you withdraw your money, you pay taxes on both the contributions and their earnings. Under the new Roth option, when you make contributions to the account you will pay taxes on them as they go into your TSP account. This is how the two options differ.

There are only two ways to get Roth money into your account: Either from your future pay or through transfer of Roth money into your account directly from eligible plans (Roth 401(k)s, Roth 403(b)s, or Roth 457(b)s only). You will not be able to transfer money into the TSP from Roth IRAs. Also you will not be able to convert money that is already in your TSP account into Roth money. This means retirees will not be eligible for the new Roth contribution unless they have one of the previously eligible Roth plans.

Whether or not you can benefit from the new Roth option will depend on your individual situation. Making the decision to contribute to the traditional or Roth option will depend a lot on your income tax rate now and in the future. You might benefit from doing so if you are in a low tax bracket now but think your tax rate may be higher in retirement, because with Roth your contributions are taxed at your current tax rate and you avoid paying taxes at the expected higher tax rate in the future. You also might benefit from the Roth TSP option if you want "tax diversification" and see an advantage in making after-tax contributions in order to have tax-free withdrawals in retirement.

Anyone with additional concerns and/or questions about the Roth TSP versus the traditional TSP should contact the Federal Retirement Thrift Investment Board at www.tsp.gov or consult with their personal tax advisors. *Matt Sumrak, Associate Retiree Coordinator.*

Correction. In the postal reform bill article on page 2 of the May 2012 *AFSA Newsletter* we referred to "advanced practical nurses". Tne the correct nomenclature is "advanced **practice** nurse" (APNs). We are sorry for any confusion the article might have caused, since there is a difference between the roles and qualifications of nurse practitioners (APNs) and licensed practical nurses (LPNs).

Appropriations Update

Congress is continuing to work on appropriations bills to fund government operations, including the foreign affairs budget, for Fiscal Year 2013.

In May, the appropriations committees for both the House and Senate approved separate versions of the State and Foreign Operations appropriations bill. The House version allocates $40.13 billion, approximately $2 billion less than last year's budget. The Senate version would provide $50 billion in funding and also includes provisions to continue Overseas Comparability Pay at the current rate, which would be eliminated in the House version. President Obama's budget request earlier this spring asked for $46.47 billion.

The full House and Senate have yet to consider their respective versions of the State and Foreign Operations appropriations bill. It is likely that Congress will delay action on appropriations until after the election in November.

AFSA is continuing to engage with members of both the House and Senate to educate them on the importance of the international affairs budget and supporting diplomatic readiness.

Clint Lohse, Legislative Assistant