



AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

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The Debt Ceiling Agreement and Federal Benefits

The 2011 Budget Control Act, the debt agreement that was signed into law on Aug. 2, provides for cuts totaling \$917 billion in discretionary spending during the next 10 years.

Although the act does not itself call for reductions in the retirement, pay or health benefits of federal employees and annuitants, it may affect active-duty employees because of anticipated cuts in agency budgets. A number of agencies have already begun offering early retirements and buy-outs.

The threat to federal benefits for both active-duty employees and retirees has not lessened, however.

The debt agreement created a bipartisan super committee, composed of 12 members of Congress, which is charged with recommending an additional \$1.5 trillion in reductions by Nov. 23. Congress is then required to vote up or down on this by Dec. 23.

Because the super committee is authorized to consider cuts in both discretionary and mandatory spending, it may recommend

cuts in federal and military retirement systems, Social Security, Medicare and Medicaid – all mandatory spending programs – as well as tax increases.

In the event the super committee cannot reach agreement or Congress does not approve its recommendations, the Budget Control Act provides that — from 2013 through 2021— about \$1.2 trillion in automatic spending reductions will apply across the board. This process, called sequestration – which was set out in the 1985 Gramm–Rudman–Hollings Balanced Budget Act – will apply equally to both defense and non-defense spending. (Foreign affairs programs are considered to be defense spending for purposes of sequestration.)

If sequestration goes into effect, Social Security and Medicare beneficiaries, as well as federal Civil Service and military retirement systems and federal low-income programs, will be exempt from mandatory cuts. Medicare providers, however, would not be exempt.

Sequestration may also be required if the super committee reaches an agreement to cut spending in an amount that is less than

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\$1.5 trillion. In that case, Congress would retain some control over what would be cut and the level of automatic cuts or sequestration would be reduced.

There are also various independent proposals to cut federal benefits in the House and Senate, including ones that would reduce the federal work force, freeze federal pay, increase federal employee annuity contributions and change the federal health premiums program into a voucher system. These proposals will undoubtedly be considered by the Super Committee. In fact, committees of jurisdiction have until Oct. 4 to send their recommendations to the super committee.

Members of the super committee are Sen. Max Baucus, D-Mont.; Rep. Xavier Becerra, D-Calif.; Rep. David Camp, R-Mich.; Rep. Jim Clyburn, D-S.C.; Rep. Jeb Hensarling, R-Texas; Sen. John Kerry, D-Mass.; Sen. Jon Kyl, R-Ariz.; Sen. Patty Murray, D-Wash.; Sen. Rob Portman, R-Ohio; Sen. Pat Toomey, R-Pa.; and Rep. Fred Upton, R-Mich; Rep. Chris Van Hollen, D-Md. Rep. Van Hollen is the only one with experience in federal work force issues.

Medicare and the Doc Fix

As mentioned above, the super committee may recommend changes in entitlement programs such as Medicare and Medicaid in

its discussions leading up to the Nov. 23 deadline. If it does not reach an agreement by that time or Congress does not adopt its recommendation, then sequestration will go into effect.

While sequestration would not apply to Medicare and Medicaid beneficiaries, it would require a 2-percent reduction in Medicare payments to hospitals and other providers, including physicians.

The distinction between reducing payments to providers and assuring patient care may be a distinction without a difference if cuts result in a significant loss of providers.

The is of real concern because Medicare physicians are facing a 30-percent cut in payments for their services in 2012. Because of a flawed long-term budgetary rule, Congress has repeatedly enacted temporary “doc fixes” — or voted to make up the difference in reimbursements — since 2003. Now it may have to face the consequence of its failure to address a systemic problem, to the detriment of Medicare beneficiaries.

Another one-year fix would cost about \$25 billion and serve only to kick the can down the road temporarily. Given the pressure on the super committee and Congress, it is uncertain how the doc fix would be resolved in either the short or long term.

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The COLA and Debt Reduction

The cost-of-living adjustment is the annual increase in benefits that retirees and Social Security beneficiaries receive to ensure that their annuities and benefits do not lose value because of inflation.

The CPI-W (Consumer Price Index for Urban Wage Workers and Clerical Workers) is the current method used to determine increases in the COLA.

One major proposal in debt reduction discussions would adopt a new measure for determining inflation, the chained CPI.

According to its proponents, the chained CPI appropriately takes into account the reality that annuitants change their buying patterns and buy less expensive substitutes as prices rise.

The chained CPI would reduce the annual increase in the COLA by about 0.3 percent a year. In so doing, it would cut federal spending by about \$145 billion and increase tax revenues by about \$72 billion over a 10-year period.

While the adjustment appears small – 0.3 percent a year – it would compound over time, hitting people more and more as they age and run through their other assets. For

the average earner the chained CPI would cut annual benefits by \$564 at age 75, \$980 at age 85 and \$1,392 at age 95, a reduction of about 9.2 percent in the latter case.

Use of the CPI might not have a significant effect on middle-income and wealthy beneficiaries with other sources of income. However, it would have a disproportionate and profound effect on low-income, elderly and disabled annuitants and beneficiaries who rely primarily or completely on Social Security benefits.

The number of people who fall into these categories is considerable.

According to the Social Security Administration, the majority of all seniors get most of their income from Social Security; 74 percent of beneficiaries over age 80 rely on Social Security for more than half of their income; and more than 40 percent of beneficiaries over 80 rely exclusively on Social Security benefits.

Social Security benefits average about \$13,000 a year. It is far from clear that low-income beneficiaries — after paying for basic necessities such as rent, food and health care— would have sufficient resources for other basic necessities, let alone the ability to make meaningful substitutions.

More Federal Benefits

Workmen's Compensation

In February Sen. Susan Collins, R-Maine, introduced the 2011 Federal Employee's Compensation Reform Act (S.261). She maintains that the Act would reduce federal work force costs by terminating workmen's compensation benefits for retirement eligible postal and federal employees when they reach retirement age. Instead of receiving these benefits, these former employees would receive federal annuities.

Sen. Collins claims that the current Federal Employees Compensation Act can result in retirement income that exceeds what a beneficiary would have received in annuity payments under his retirement system.

The compensation program, as opponents concede, has become outdated. However, the Collins bill could relegate injured employees to small, inadequate pensions. Under it, an employee injured early in his career would receive a pension that would not reflect promotions and higher earnings he would have received over time had he been able to continue working.

An alternative Department of Labor proposal would provide uniform compensation for beneficiaries when they reach Social Security retirement age. It would limit loss of tax-free wage benefits to 50 percent of gross salary at the time of injury.

What Shall I Do?

Employees nearing retirement are understandably worried about the debt reduction negotiations. While it seems clear that there will be cuts in federal benefits, there is no way of telling what the cuts will be and to whom they will apply. Indeed, if the super committee's recommendations are adopted by Congress, they will be phased in over a 10-year period.

The prospect of change adds some urgency to what employees nearing retirement need to do. They should realistically calculate what level of income they will need in retirement and compare this to the income and resources they will be able to rely on then. This assessment is the necessary basis for making a practical decision about retirement.

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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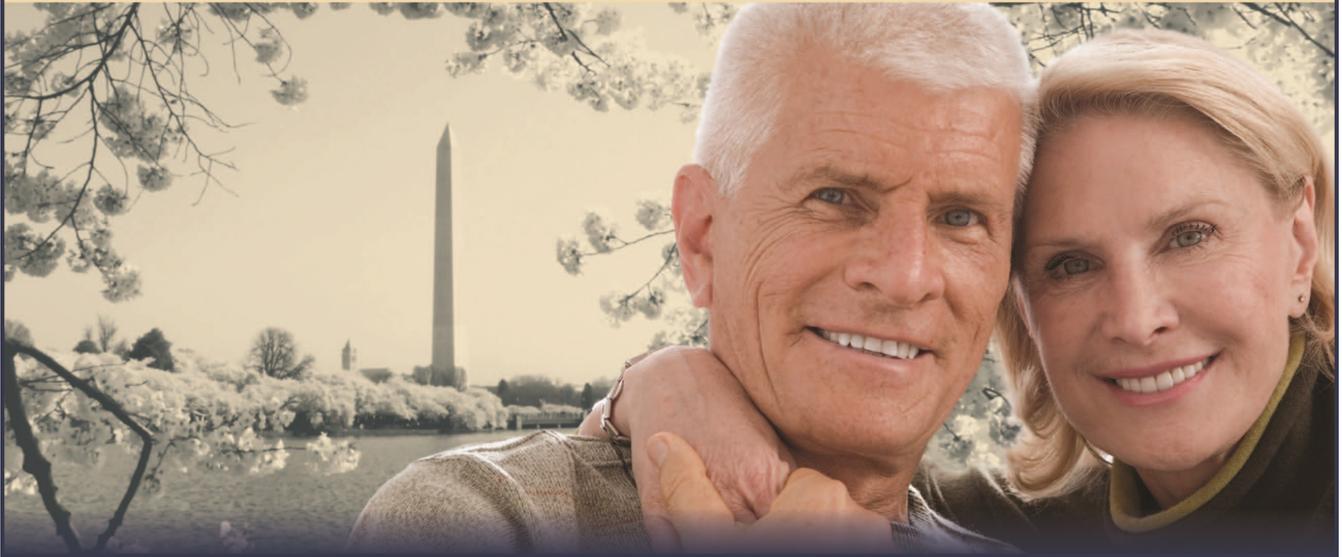
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About AFSA Activities

Agent Orange Update

Last year AFSA wrote about three former Foreign Service officers who have illnesses they claim resulted from exposure to Agent Orange when they served in CORDS during the Vietnam War. CORDS (Civilian Operation and Rural Development Support) combined counterinsurgency and nation-building programs run by joint military, USAID and CIA teams.

The United States government presumes that all military personnel who served during the Vietnam War were exposed to Agent Orange and that certain illnesses are the result of that exposure. As a result, individual claimants are not required to prove that these specified or “presumed” illnesses were caused or worsened by their exposure in Vietnam.

No such presumption exists for civilian employees exposed to Agent Orange, even though the particular illnesses of the three FSOs would have been found caused by Agent Orange had they been in the military. Their only recourse was to file claims for workmen’s compensation with the Department of Labor, which two of them did.

DOL recently denied both claims on the grounds that the claimants had not submitted a physician’s report in which the physician categorically concluded that the illness

was caused by exposure to Agent Orange. This is an extremely difficult, if not impossible, standard of proof to meet.

The difficulty these men encountered isn’t an isolated or outdated one. Increasing numbers of Foreign Service personnel are serving in combat zones, such as Iraq and Afghanistan. Others are posted in embassies and consulates around the globe, often in hazardous and dangerous conditions.

It is essential that the department provide state-of-the-art diagnostic services and health care for our personnel in combat zones. In addition the department should argue forcefully for compensation—equivalent to that for the military — for our civilian personnel injured in combat zones.

Foreign Service Memorial Markers

AFSA expects to launch a Foreign Service Memorial Marker Program in the near future. The marker, which is five inches in diameter, is made of architectural bronze and etched with a simplified Great Seal of the United States and the words “United States Foreign Service”.

Our aim is to provide a grave marker, similar to those used by the branches of the military, that will memorialize and celebrate the service of Foreign Service personnel and their spouses and partners. Information about ordering will be in the next Newsletter.

More AFSA Activities

Federal Postal Coalition

AFSA is one of two dozen federal and postal unions that work together to monitor threats to federal employee and retiree benefits and register our concerns with decision-makers.

Over the past year the coalition has met with members of Congress and staff members to discuss debt reduction and federal benefit issues. It has also sent joint letters to congressional leaders, the White House, the Office of Management and Budget, and Treasury Secretary Timothy Geithner, registering our concerns about various debt reduction proposals. You can find these letters under *Current Issues* on the Retiree Web page at afsa.org/retiree_services.aspx.

Now our attention is turning to the newly-formed super committee. We will keep you informed.

AFSA Book Notes

Our Book Notes program continues on Thursday, Sept. 27 at 3 pm, when retired FSO Patricia McArdle discusses her new novel, "Farishta," which won the 2010 Amazon Breakthrough Novel Award. McArdle draws on her experience as a diplomat to tell the story of a woman posted to Afghanistan who slips out of camp disguised in a burka to provide aid to the refugees in the war-torn region.

The program will take place at AFSA HQ (2101 E Street NW) at 3 p.m. on Sept. 27; books will be available for purchase. Please RSVP to events@afsa.org.

FYI

COLA Watch

The July Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) rose 0.07 percent last month.

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. Because there were no COLA increases in 2009 and 2010, however, the basis for measurement is the 2008 third quarter average.

The index is now 3.34 percent above the 2008 third quarter average. There will be an automatic COLA for 2012 if the CPI-W for August through September 2011 exceeds that for the third quarter of 2008.



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Open Season: Federal Benefits

The Office of Personnel Management has announced that Federal Benefits Open Season will run from Nov. 19 to Dec. 12.

OPM recommends that enrollees review their current coverage before open season begins to determine whether they have the optimum health, dental and vision insurance coverage for themselves and their families.

Active-duty employees should also review their past out-of-pocket medical or dependent care expenses to determine whether they would benefit from a flexible spending account.

OPM will provide 2012 premium rates for the Federal Employees Health Benefit Plan and Federal Employees Dental and Vision Insurance Program in early October.

For more information, go to www.opm.gov/insure. AFSA will again provide access to the *Consumer Checkbook Guide to Health Plans for Federal Employees* on its Web site.

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