



AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

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Federal Benefits at Risk in New Congress

There are several hard-hitting initiatives to reduce federal spending before Congress, including some aggressive proposals to cut federal jobs, pay and benefits.

The Republican majority in the House has enacted rules that set the parameters for budget deliberations. The new budget rules allow taxes to be cut without corresponding offsets to replace the lost revenue and bar raising taxes to pay for new spending. Rather, any new spending must be offset by cuts in existing programs. Republicans have also made it clear that they will not agree to any increase in the debt ceiling without deep spending cuts.

On Jan. 24, Rep. Jim Jordan, R-Ohio, Chairman of the Republican Study Committee, introduced the Spending Reduction Act of 2011 (H.R. 408) in the House. Sen. Jim DeMint, R-S.C., is planning to introduce a companion bill in the Senate.

H.R. 408 would cut \$2.5 trillion in federal spending by reducing non-security discretionary spending for the rest of this fiscal year to 2008 levels, and limiting spending in future fiscal years through 2021 at 2006 levels for non-defense discretionary spending. Among other things, the measure would eliminate any remaining stimulus spending and eliminate or reduce support for 100 programs, including \$1.39 billion annually for USAID.

With respect to federal work-force reforms, it would eliminate automatic pay increases for civilian federal employees for five years, cut the civilian work-force by 15 percent through attrition and allow the hiring of only one new worker for every two workers who leave federal jobs until the reduction target has been met.

According to a Feb. 3 article in *Government Executive*, House Budget Committee Chairman Paul Ryan, R-Wis., will file a budget resolution in early February that will effectively set spending ceilings for committees. The ceilings will be less stringent than those proposed in H.R. 408, but will apply both to discretionary and defense and other security programs, cutting \$74 billion from the former and \$16 from the latter.

Budget discussions will begin in earnest next month after the President Obama releases his budget on Feb. 14 and before the current continuing resolution expires on March 4 and the federal debt ceiling is reached.

There are other federal work-force proposals under consideration, including ones to repeal sections of the 1978 Civil Service Reform Act that allow federal employees to use official work hours to perform union functions or participate in union activities, incorporate the wide-ranging recommendations proposed by the chairmen of the Fiscal Commission and require all federal employees not working in the areas

More on Federal Benefits

Pay Freeze

On Dec. 22 President Obama signed legislation to prohibit statutory pay adjustments for most federal civilian employees for two years. In a separate memorandum he directed that agencies forgo similar increases to pay schedules and rates that are set by administrative discretion.

The freeze will affect nearly 2 million employees in the executive branch. It will not, however, affect military personnel, U.S. Postal Service workers or Postal Regulatory Commission employees.

The pay freeze statute prohibits “statutory pay adjustment” that would otherwise take effect in 2011 and 2012 for Federal civilian employees. Workers will, however, still qualify for promotion increases,, within-grade increases and other similar pay increases.

According to a Dec. 30 memorandum from Office of Personnel Management Director John Berry, the pay freeze does not apply to:

- Performance awards and bonuses; recruitment, relocation and retention incentives; and premium payments such as overtime pay;
- Promotions, periodic within-grade step

increases based on fully successful level of performance, and quality step increases for outstanding performance;

- Adjustments in foreign areas to maintain a constant salary rate in U.S. dollars, or local currency, or to respond to foreign labor laws; and
- Pay-setting flexibilities, such as the Civil Service superior qualifications and special needs pay-setting authority for newly appointed employees under Title 5 of the Code of Federal Regulations 531.212 and the maximum payable rate rule under 5 CFR 531.221.

The freeze also does not apply to any increase that is required by a collective bargaining agreement already in effect.

What if there is a furlough?

If the government were to shut down because of a government furlough, issuance of annuity payments would not be affected, according to both the Office of Retirement and the Retirement Accounts Division.

Annuitants, however, would not be able to change tax withholdings or allotments during a furlough period. If you have further questions, you can contact HRSC at 1 (866) 300-7419 or HRSC@state.gov.

Tax Information for 2011

Payroll Tax Decrease

The Tax Relief, Unemployment Insurance Authorization Act of 2010 provides that the Social Security employee tax rate will be temporarily decreased from 6.2 percent to 4.2 percent during 2011.

The Social Security payroll deductions of Foreign Service Pension System and FSPS-Offset employees will decrease by 2 percent up to the 2011 Social Security maximum taxable income of \$106,800. The tax decrease will not affect contribution rates for retirement systems.

The reduction in the tax rate will not benefit employees in the Foreign Service Retirement and Disability System because these employees do not contribute to Social Security. Nor will it benefit retirees who do not continue to work and pay into Social Security.

IRS Filing Delay

Because Congress acted so late in the year to change the tax code to include deductions for state and local sales taxes, college tuition and teacher expenses, the Internal Revenue Service was not able to reprogram its system to process those changes until mid to late February.

The delay affects both paper and electronic filers who itemize deductions on Form 1040 Schedule A. That includes those claiming the new Educator Expense Deduction, which credits grade school teachers for out-of-pocket expenses of up to \$250. It also includes those

claiming deductions for up to \$4,000 of tuition on Form 8917 for college students. The IRS said there will be no delays for those who claim other education tax credits.

Though taxpayers can work on their tax returns before the IRS is ready to accept them, the IRS cautioned people not to send their returns in before it is ready to process them. The IRS will announce when this will be.

Meanwhile, Turbo Tax announced that its customers can e-file with the company as early as Jan. 6, and it will hold on to the filings until the IRS is ready to process them.

Making Work Pay Credit

The Making Work Pay credit – a 2009 stimulus law federal tax credit for employees and retirees – expired on Dec. 31, 2010. The credit equaled 6.2 percent of a taxpayer's earned income up to a total credit of \$400 for individuals and \$800 for joint filers. Last year the IRS asked employers to use new withholding tables to adjust the take-home pay of employees and annuitants (regardless of whether retirees were employed). Individuals did not have to fill out new W-4 withholding forms to obtain the credit and the adjustments were automatically made based on the 2010 withholding tables.

IRS tax withholding tables were changed for 2011 to reflect the expiration but were not put into effect until February. As a result, retirees should see an increase in the amount of federal tax being withheld from their annuity payments from February on. (This is due to expiration of the tax credit and is not a tax increase.)

More Tax Information

Exemptions and Deductions

A number of federal tax provisions affecting exemptions and deductions for tax year 2011 were modified or extended by the Tax Relief, Unemployment Insurance Act of 2010:

- Personal and dependent exemptions. Personal and dependent exemptions will be \$3,700.
- Standard deductions. The standard deduction will be \$11,600 for married couples filing a joint return; \$5,800 for singles and married individuals filing separately; and \$8,500 for heads of household. The additional standard deduction for blind people and senior citizens is \$1,150 for married individuals and \$1,450 for singles and heads of household.
- Tax-bracket thresholds. These thresholds will change across the board. For example, the taxable-income threshold that separates the 15-percent bracket from the 25-percent bracket will increase to \$69,000.

Federal Income Tax Withholding

Noting that current law prohibits withholding federal income tax at a flat dollar amount, the department recently wrote to annuitants, asking them to change their withholding elections by submitting a 2010 W-4P.

If annuitants did not change from a flat rate by Nov. 1, 2010, the department an-

nounced that it would withhold taxes at the rate required by IRS, “married with three exemptions.” For assistance, call the Payroll Customer Support Unit at 1(800) 521-2553.

AARP Tax-Aide Assistance

AARP provides a free tax preparation and assistance service to all middle and low-income taxpayers with special attention to those age 60 and older. The assistance is provided by Internal Revenue Service-certified counselors in community locations, including a number of locations in the Washington, D.C. area.

For more information about the Tax-Aide Program visit www.aarp.org/taxaide or call 1-(888) 227-7669.

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

For Your Information

Social Security Payments

As of May 1, most Social Security recipients will be required to receive Social Security payments by direct deposit. Recipients who were born before May 1, 1921 – an estimated 275,000 Americans – will continue to receive paper checks, but those who live far from banks can petition for an exception. Social Security recipients will also have the option of using a Direct Express Debit MasterCard card account.

Current recipients are required to make arrangements for electronic deposit by March 1, 2013, either online or by phoning 1-(800) 333-1795. Those who become eligible for benefits after May 1, 2011, will automatically receive payments by direct deposit.

To promote awareness of the new requirement and ease the transition for seniors, Treasury has upgraded a special Web site at www.GoDirect.org and will follow up with public service announcements and a financial literacy campaign in cooperation with hundreds of national, regional and local organizations.

According to Treasury Department, direct deposit will save American taxpayers \$120 million a year and the Social Security Administration \$1 billion over the next 10 years. It will also reduce incidents of loss or theft, events that require the Social Security Administration to re-issue some 600,000 checks in an average year.

Will LTC Survive?

Noting that the long-term care insurance industry is shrinking and that LTC companies are concluding that they have significantly underpriced their policies, in a Nov. 12 *New York Times* article Ron Lieber examined whether the industry would survive in its present form.

Eleven major LTC companies in the New York have discontinued operations over the past decade, Lieber said. And MetLife, a major player, announced in November that it would no longer underwrite LTC insurance for individuals or for group plans through employers.

While MetLife will continue to pay claims on existing policies, it has asked state regulators to approve a 44-percent increase in its premiums.

Two other industry leaders, Genworth Financial and John Hancock are also seeking state permission to raise premiums by 18 and 40 percent, respectively.

(It should also be noted that last year the Federal Long Term Care Insurance Program raised its premiums for inflation-protected coverage by as much as 25 percent.)

According to a MetLife spokesman, assumptions used to initially price many long-term care insurance products have changed and the impact of “evolving as-

More FYI

LTC Continued

sumptions” on pricing is challenging the industry.

What this means is that interest rates on company investments have been lower than anticipated while health care costs have risen, claims have been made for longer periods of time than anticipated when coverage was expanded to include assisted living and in-home care, and only one percent rather than the anticipated five percent of enrollees dropped their coverage, Lieber explained.

Where does this leave someone who needs to plan for long-term care and is not wealthy or eligible for Medicaid?

Lieber concludes with this unhappy prospect: “You may end up paying more than you expected for decades on end for a policy that covers only part of your bills.”

According to a MetLife survey, the average cost of a private room in a nursing home in 2010 was \$229 a day, an increase of 4.6 percent from the previous year, and the average cost of assisted living rose to \$40,000 a year, an increase of 5.2 percent. If the trend continues, nursing home and assisted living costs will double in about 15 years and quadruple in 30 years.

Over 55 and Looking for a Job ?

In the March/April 2011 issue of *AARP Magazine*, author Andrew Reiner laments: “When I peer into the cocksure eyes of this free-spending, techno-savvy, effortlessly self-promotional [younger] generation, I fear I’m being rendered obsolete.”

Noting a recent survey that found that 50 percent of hiring managers vet and recruit applicants through social media, Reiner somewhat sadly concludes that older job seekers must develop an alluring online brand to be competitive. Rather than replying to newspaper classifieds, they should be establishing an online footprint on Facebook and LinkedIn and other social media. He quotes career coach Phyllis Mufson who advises: “If you are not online today, chances are you won’t be noticed, or it will be assumed you are behind the times.”

Reiner goes on to discuss some of the resources available to older job seekers, including image and branding consultants and a free online calculator that measures your “Google Quotient” on the basis of how many hits your name generates in a Web search (www.onlineidcalculator.com).

Although Reiner says he now understands and appreciates the value of the new rules for the career game, he rues the prospect of “turning one’s life into a pageant of self-promotion” in a world “in which everyone is selling all the time.”

Helping Foreign Service Colleagues

Evacuation from Cairo

Non-essential personnel and dependents are being evacuated by plane from Embassy Cairo, and the department anticipates that many will begin arriving in the D.C. area by mid-February. The State Department Family Liaison Office has asked the Associates of the American Foreign Service Worldwide to provide volunteers to support families and personnel, as AAFSW did during the Haitian earthquake evacuation last year.

If you wish to volunteer, please contact AAFSW Coordinator Ann La Porta at a_laporta@yahoo.co or (202) 248-4246

Egypt Pet Support Group

In response to a request from the Family Liaison Office, AFSA has established an *ad hoc* pet-support group, consisting of AFSA, FLO, the Foreign Affairs Friends of Animals Network, the Humane Society of the United States and Humane Society International. The organizations met Feb. 6 to discuss and coordinate efforts to support the repatriation of Foreign Service and military pets left behind in Egypt and their reunification with owners who left under ordered departure.

If a pet evacuation is undertaken, AFSA and FAFAN will call for volunteers in the D.C. area to assist the Humane Society and other animal assistance groups with foster care and transportation.



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of defense, public health, homeland security or law enforcement to take unpaid two-week furloughs next year.

To date proposed legislation does not include Fiscal Commission recommendations to change the FEHB premium formula to a voucher system, increase employee contributions to retirement or switch to a high-five salary base for calculating annuities. These may become subjects of proposed legislation or, in the event of budget reconciliation, easy targets for spending cuts.

According to Wikipedia, budget reconciliation “is a provision in a [budget resolution](#) directing one or more committees to submit legislation changing existing law in order to bring spending, revenues, or the [debt limit](#) into conformity with the budget resolution. The instructions specify the [committees](#) to which they apply, indicate the appropriate dollar changes to be achieved, and usually provide a deadline by which the legislation is to be reported or submitted.”

Senate / House Information

The official Web sites of the U.S. House of Representatives and the U.S. Senate are at www.house.gov and www.senate.gov. Contact information for senators can be found at www.senate.gov/general/contact_information/senators_cfm.cfm?OrderBy=state&Sort=ASC. Contact information for representatives can be found at www.house.gov/house/MemberWWW.shtml

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