



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

February 2013
Volume 27, Number 2

Legislative Update

Rearranging the Deck Chairs

Little substantive progress has been made in the continuing congressional debate over the debt crisis. Rather, Congress continues to rearrange the deck chairs.

Legislators agreed to lift the statutory borrowing limit or debt ceiling for three months (to late May) on the condition that Congress pass a budget as a first step in long-term debt negotiations.

The Country still faces the prospect of deep sequestration cuts in defense and non-defense programs beginning on March 1, unless Congress reduces expenditures in the amount required by the 2011 Budget Control Act. Also, 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 unless there is another continuing resolution.

The threat of sequestration is quite real. Civilian and defense agencies face cuts of between 9 and 13 percent in the event that Congress does not meet the March 1 deadline and this appears more and more likely in the current political climate.

While some federal agencies, particularly defense-related ones, have provided specifics about their sequestration preparation plans, others have provided only very general guidance. This leaves employees uncertain and anxious about their jobs and their ability to carry out their agency missions.

What is Sequestration?

According to the Office of Personnel Management: "Sequestration is an across-the-board reduction in federal budgetary resources in all budget accounts that have not been exempted by statute. Under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, across-the-board reductions are scheduled to take effect on March 1, 2013, unless legislation is enacted that avoids such reductions. If it occurs, this sequestration will reduce each agency's budgetary resources in non-exempt accounts for the remainder of the fiscal year (which runs through September 30, 2013)."

In more common parlance, CNN's Matt Smith defined sequestration as: "...a series of automatic, across-the-board cuts to government agencies, totaling \$1.2 trillion over 10 years. The cuts would be split 50/50 between defense and domestic discretionary spending. It's all part of attempts to get a handle on the growth of the U.S. national debt, which exploded upward when the 2007 recession hit and now stands at more than \$16 trillion."

According to Mr. Smith, the sequestration process started during "the 2011 standoff over the U.S. debt ceiling. "... In the end, Congress and the administration agreed to more than \$2 trillion in cuts. About

More Sequestration Basics

\$1 trillion of that was laid out in the debt-ceiling bill and the rest imposed through sequestration -- a kind of fiscal doomsday device that Congress would have to disarm by coming up with an equal amount of spending reductions elsewhere.”

Sequestration Proposals

Here are the current sequestration plan proposals now under discussion:

President Obama's plan

- \$1.2 trillion in new revenue from individual income taxes
- Permanent extension of Bush tax cut rates for everyone making less than \$400k/year
- Tax rates above \$400K/year go back to pre-Bush tax cut rates
- Estate tax set at 2009 levels
- 28% cap on most tax deductions, 35 percent on charitable deductions
- Capital gains and dividends set at 20 percent
- \$1.22 trillion in spending cuts
- \$290 billion in debt interest savings
- \$130 billion from superlative Consumer Price Index, starting in 2014
- \$400 billion in cuts to health-care programs
- \$200 billion in cuts to non-healthcare mandatory programs
- \$100 billion in defense-related discretionary spending cuts
- \$100 billion in non-defense discretionary cuts
- Creation of a fast-track process in 2013 for achieving corporate and individual tax reform and spending reforms, consistent with the parameters set forth above. Only a handful of policies in the buckets above would be enacted in this package itself.
- Extension of unemployment insurance benefits (cost of \$33 billion)
- \$50 billion for infrastructure bank

- Permanent extension of corporate tax extenders, the alternate minimum tax and the Medicare sustainable growth rate, though some sources suggest this is just a framework and only one-year extensions of these policies are actually paid for
- Two-year debt limit increase (other reports suggest the White House asked for four years)

H.R. 444, the Require a PLAN Act,

H.R. 444, adopted on Feb. 6 by the House, directs the president to submit a balanced budget plan to Congress this spring. It is an attempt to force President Obama and the Senate to engage in efforts to cut the deficit. If adopted, the legislation would require President Obama to estimate when the federal budget will balance again and outline the steps he would propose to eliminate the budget deficit.

GOP Sequester Counter-Plan

In early February top Republicans on House and Senate Armed Services Committees unveiled a plan to delay sequestration through offsetting reductions in the federal work force.

A 10-percent reduction in federal staffing through attrition would pay for about a year's worth of sequester cuts and allow federal agencies to hire one person for every three who leave their employment.

Additionally, the legislation would freeze pay for members of Congress in any year in which there is a federal budget deficit. This proposal has the support of several top GOP lawmakers.

Matt Sumrak, Associate Retiree Coordinator.

The Web site of the Foreign Service Group of Central Texas is www.tfsfg.org.

More Sequestration Basics

The Department and Sequestration

On Feb. 13, State sent all employees a cable explaining its sequestration preparation planning. The department said that during this process, it will do its utmost to protect its ability to perform its mission on behalf of the American people.

The department explained that it is carefully considering how to reduce costs in order to mitigate the disruption of operations, programs and employees. The ability to do so, however, it conceded, will be limited because of the rigid nature of the cuts. As a result, it may be compelled to make cuts in vital programs and contracts and furlough employees.

The department is now in the process of examining contracts, grants, operational and administrative costs, and other expenditures across the department to determine where it can reduce costs.

Even after taking all possible measures to achieve necessary cost savings and avoid furloughs, the department conceded that it may have to consider temporary furlough of employees should sequestration occur.

If this becomes the case, State assured employees that all affected employees would be provided at least 30 days' notice prior to furlough.

The department also assured employees that it will engage in discussions with employee unions, as appropriate, to ensure that any furloughs are applied in a fair and appropriate manner.

Both the United States Agency for International Development and the United States Department of Agriculture issued essentially the same guidance as the State Department to their employees.

What Else Is at Stake?

There is no shortage of proposals to reform Social Security and Medicare. Some would change the basic nature of the programs; others would focus on one option or tinker around the edges. What we are not seeing is a comprehensive approach to reform that would preserve the essence of the programs, improve efficiencies and equitably spread the pain of significant cuts in social programs. Thus, there is a danger that the debt crisis will result in simplistic political remedies with unintended consequences.

According to a Feb. 11 article in the *New York Times* a "sharp and surprisingly persistent slowdown in the growth of health care costs is helping to narrow the federal deficit, leaving budget experts trying to figure out whether the trend will last and how much the slower growth could help alleviate the country's long-term fiscal problems." The Congressional Budget Office now projects that spending on Medicare and Medicaid in 2020 will be about \$200 billion, or 15 percent less than it projected three years ago.

While the reasons for this slowdown are not entirely clear, Jared Bernstein of the Center for Budget Policies and Priorities, notes that health experts believe that the downturn in health costs is due to structural changes in medical care. This surprising reduction can and should give policymakers time to assess what is happening and design thoughtful, well-considered reform in light of those changes.

Social Security reform is less challenging because it is a question of math, not rising health costs. There are many ways to trim the costs and increase the revenues of the program; among these are increasing the amount of income subject to Social Security taxes, raising the age of beneficiaries, adjusting for-

Legislation Update

What Else Continued

mulas for benefits and cost-of-living amounts are calculations, and changing investment practices. Each has costs and benefits and affects different populations. Given the range of options, the deficit can be addressed with a combination of relatively small changes that spread the pain, so that no single age or economic group does not bear the brunt.

At this point, however, budget talks are focused on a single change to Social Security, one that would reduce benefits and raise taxes for low-income Social Security beneficiaries and federal annuitants. Use of the Chained CPI would reduce the COLA by 0.3 percent a year, a reduction that would significantly compound over time. It would also reduce adjustments for personal exemptions, standard deductions and income tax brackets, thus increasing taxes for lower and middle-income taxpayers. As with Medicare, we need a comprehensive and equitable approach to preserving Social Security.

Federal Salaries

As you know all too well, federal pay has been frozen since 2011.

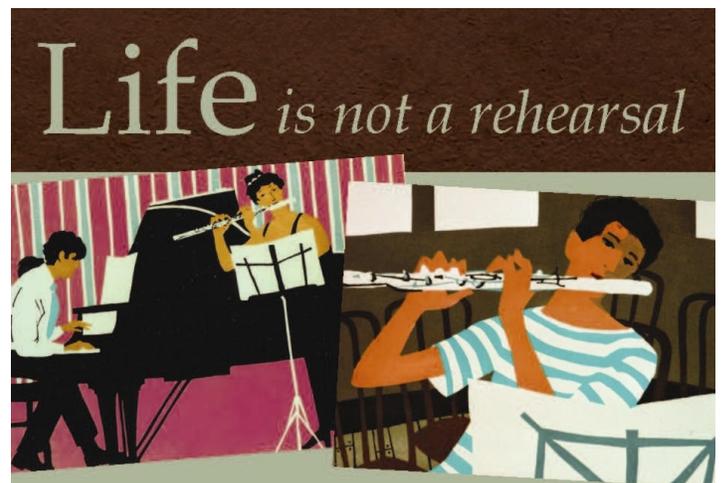
By executive order, President Barack Obama implemented a 0.5-percent pay increase for federal employees for 2013. This increase is scheduled to go into effect after March 27, unless Congress overrides the president's action. The House adopted H.R. 273 to block that increase, but a block is unlikely to succeed in the Senate or be signed by the President.

President Obama has announced he will include a 1-percent pay increase in his 2014 budget. This is in line with the increase the Defense Department has recommended for its military employees.

Two Other Proposals To Watch

H.R. 517 would provide all federal employees with four weeks of paid parental leave upon the birth or adoption of a child. The legislation would also permit federal employees to use any accumulated annual or sick leave to offset the 12 weeks of unpaid leave guaranteed by the Family and Medical Leave Act.

H.R. 568, sponsored by Rep. Dennis Ross, R-F, calls for the Office of Personnel Management to submit a yearly report to Congress detailing the use of official time by union workers. The measure has been referred to the House Oversight and Government Reform Committee.



Details from *DUO* and *The Rehearsal* by Paul Arnold, Kendal resident and Oberlin College Professor Emeritus

Kendal's diverse and appealing community invites you to reach for the high notes with a retirement score offering a coordinated system of residential and health care choices. Minutes from Oberlin College and its Conservatory of Music.

KENDAL[®]
at Oberlin
Together, transforming the experience of aging.®

600 Kendal Drive
Oberlin, Ohio 44074
1-800-548-9469
www.kao.kendal.org



Advocacy News

AFSA Rallies with Other Federal Unions

AFSA joined more than 1,500 union activists from the American Federation of Government Employees and the American Federation of State, County and Municipal Employees in a rally on Capitol Hill on Tuesday, Feb. 12. The rally was called to urge Congress to shield vital government programs and services from devastating sequestration cuts.

AFGE and AFSCME are the two largest unions representing government employees at the local, state, and federal levels. They organized the rally at lunchtime to call on Congress to protect Medicare, Medicaid, Social Security, and other government programs that are critical to the health, safety, and welfare of all Americans.

The speakers at the rally included AFL-CIO President Richard Trumka, AFSCME President Lee Saunders, and AFGE President J. David Cox Sr., as well as several government employees from all across the country who provide vital public services. The message was clear, "Jobs, Not Cuts". The rally demonstrated solidarity among all government employees and unions.



Coalition Letter on the Freeze

AFSA, as a member of the Federal-Postal Coalition, signed onto a recent letter sent to members of the House of Representatives. The letter strongly urged members to vote against later-adopted H.R. 273, which would block the implementation of the president's executive order giving federal employees a 0.5-percent salary increase for 2013.

A copy of the letter can be found on the Retiree Service Web page at http://afsa.org/retiree_services.aspx under the heading AFSA & Your Federal Benefits.

Education and Assistance Fund

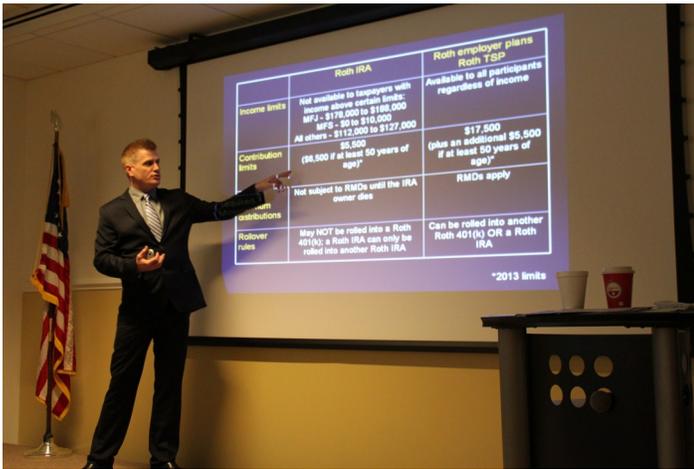
AFSA recently joined the board of the Federal Employee Education & Assistance Fund, which is devoted to helping civilian federal and postal employees.

FEEA helps federal employees through three signature programs and partners with three dozen membership organizations, unions and federal agencies to administer special programs that are available only to their members.

The programs include emergency loans and grants, scholarships, child care, and natural disaster grants. FEEA also administers the Diplomatic Fund, to help the families of diplomats who were victims of terrorism. In the past, assistance has been given to the families of diplomats killed in Bosnia and Africa.

We urge our members to consider supporting FEEA, either through a general donation or a contribution to a specific fund or program. Please visit www.feea.org to learn more and make a contribution.

TSP Briefing at AFSA



AFSA hosted the fourth session in its Federal Benefits Speaker Series on Feb. 11. Randy Urban gave a briefing to AFSA members about Thrift Savings Plan contribution rules, investment considerations and withdrawal options for employees and retirees. The seminar was attended by more than 85 AFSA members.

Mr. Urban made the following points.

- Agency contributions to the TSP are “free government money”. In addition to the 1-percent automatic agency contribution, employees may contribute enough to get another 4% match. To that end, he recommended that employees spread monthly contributions throughout the year to maximize agency contributions.
- Employees can start, stop, or change their contributions at any time. Mr. Urban strongly encouraged everyone to go to the TSP Web site (www.tsp.gov) to utilize the calculators to help decide how to maximize contributions.
- There are a number of investment considerations, including the time horizon (when you plan on using the money you have invested, most likely not the same as your retirement date), diversification, risk tolerance, inflation, taxes and investment costs.

- TSP receives no government money and despite this, it has very low investment costs. In 2012 the average expense for administrative and investment management fees were \$0.27 for every \$1,000. In contrast, the average investment cost for mutual funds is \$2.62 per \$1,000 and median 401(k) expenses are \$7.20 per \$1,000.
- Participants are not eligible for post-separation withdrawals until TSP has been notified of the separation by payroll (generally about 30 days). All post-service withdrawal requests require a notarized signature of the participant. Withdrawal forms can be pre-filled using the online wizard on the TSP Web site, which can prevent mistakes. Also, married Foreign Service Pension System participants must obtain a notarized spouse’s signature. If a participant has both a traditional and a Roth balance, or investments in several funds within TSP, all withdrawal options are paid proportionally from each balance.
- In order to elect an in-service withdrawal the participant must be 59 ½ or older. An in-service withdrawal is a *one-time* withdrawal of all or at least \$1,000. By choosing an in-service withdrawal, the participant is prohibited from receiving a partial post-service withdrawal after separation. Also, there is a mandatory 20-percent Federal tax withholding when the in-service withdrawal is sent directly to the participant. However, any amount sent to another qualified account is not taxed.
- Every separated participant with an account balance of less than \$200 will receive an automatic cash-out. Post-service participants may not make contributions. However, they may transfer amounts into TSP from individual traditional IRAs or eligible employer retirement plans.
- By April 1st in the year after a participant turns 70½ and is separated from the service, he or she must take required minimum distributions from his or her TSP account. The current RMD is 3.65

TSP Continued

percent of the account total. If a participant fails to take the RMD, he or she will suffer an IRS penalty of 50% of the RMD amount. Participants are required to submit form TSP-70 by April 1 each year to facilitate distribution.

If you were unable to attend the seminar you can view the video at the following link: <http://afsa.org/AFSAVideos.aspx>, and you can view the slides used during the presentation at http://afsa.org/Portals/0/tsp_event_slides.pdf. If you have any questions or comments with regard to TSP, please visit the TSP Web site at www.tsp.gov. There you will find calculators, bulletins, forms, and contact information. *Matt Sumrak, Associate Retiree Coordinator*

FEGLI Footnote

If you retire before the end of a pay period, you may pay somewhat more for your Federal Employees Group Life Insurance coverage than you anticipated. This is because FEGLI premiums are not prorated. You will pay the premium for the full pay period even if you were paid for only part of that pay period. Similarly, you will pay the full premium in retirement even though you do not work for the full annuity period.

Withholdings for active-duty employees are based on the amount of insurance last in force during the pay period. Usually, this is the amount of insurance you have on the last day of the pay period or if you die or separate during a pay period, the amount of withholding is based on the amount of insurance in force on the date of your death or separation.

You Stand for Freedom and Democracy. We stand behind you on your **MissionsAbroad**®

For 65 years, Clements remains committed to the insurance needs of Foreign Service Officers and their families.



Get an instant quote on
clements.com

 **clements**
WORLDWIDE

CAR • PROPERTY • LIFE & HEALTH • SPECIALTY & HIGH RISK INSURANCE

IDs for Former Political Ambassadors

At the request of the Council of American Ambassadors, the department has begun issuing identification badges for department access to former political ambassadors.

The former ambassadors will have to go through the same process to apply for IDs and will have the same restricted access to the department as retirees. The IDs are only for former ambassadors and not for retired Schedule C employees.

Counseling and Legislative Coordinators

Bonnie Brown brown@afsa.org

(202) 944-5509 or (800) 704-2372, ext. 509

Matthew Sumrak sumrak@afsa.org

(202) 719-9718 or (800) 704-2374, ext. 522



Your gift would establish a scholarship in your name or that of a loved one which is bestowed to a deserving student in the form of need-based financial aid scholarship or merit achievement award.

AFSA accepts gifts of cash, stock, real estate, life insurance policies, and retirement plan assets.

AMERICAN FOREIGN
SERVICE ASSOCIATION
2101 E STREET, NW
WASHINGTON, DC 20037

ph: 202 944 5504
email: scholar@afsa.org

WWW.AFSA.ORG/SCHOLAR

DACOR seeks candidates for the position of Executive Director. Interested persons may obtain a copy of a detailed position description by e-mailing sbrock@dacorbacon.org or by telephoning (202) 682-0500, ext. 14. The deadline for submitting resumes and cover letters with three references is March 8.