Now back from spring recess, Congress faces the prospect of sequestration, or automatic across-the-board cuts in defense and domestic discretionary budgets, unless it can hammer out a deficit-reduction agreement. Early indications are that this may not happen before the November elections, which could trigger a government shutdown.

The budget process is inherently unwieldy, involving a number of processes that are confusing and not necessarily coordinated. These include the president’s budget, the House and Senate budget committee resolutions, and the various reconciliation, sequestration, authorization and appropriation mechanisms.

While the parties are starkly divided on many issues, this is not the case with regard to federal benefits. More and more we see a willingness — and in some instances eagerness — to severely cut federal benefits on both sides of the aisle. We can expect federal benefit proposals at all stages of the budget process. The question, unfortunately, has become which benefits will be cut and to what extent, whether through the budgetary process or in other stand-alone or comprehensive bills.

In late February, President Barack Obama presented his Fiscal Year 2013 budget, which 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. In all likelihood, these changes will be the floor for any negotiations. President Obama also proposed a 0.5 percent salary increase for federal employees, ending the current two-year freeze.

On March 29 the House passed the budget proposed by Budget Committee Chairman Paul Ryan, R-Wis. The Ryan budget would reduce the number of federal employees by 10 percent, extend the current two-year freeze on civilian employment for an additional three years, and increase contributions to retirement plans for current and future federal employees, eventually equalizing employee and government contributions.

Senator Kent Conrad, D-N.D., chairman of the Senate Budget Committee, has announced his intention to advance the bipartisan Fiscal Commission plan, also known as the Bowles–Simpson deficit reduction plan, for Senate consideration. However, Senate Majority Leader Harry Reid, D–Nev., has declared that he would not permit Senate consideration of this budget. Instead, he plans to move forward with spending bills under the terms of last year’s debt ceiling deal, which are less stringent that the House budget.

The Bowles–Simpson plan would freeze federal pay for three years, slash 200,000 positions from the federal work force by 2020, and calculate federal retiree pensions on the basis of the high five years of salary, rather than three years. The deficit reduction plan would also require federal employees to contribute half the cost of their defined benefit pension plans. Foreign Service Pension System contributions would rise from 0.8 percent of each pay-check to roughly 6.25 percent.

The Conrad plan could include reconciliation instructions, requiring Senate committees to cut programs, raise taxes or both. Individual committee plans would be packaged into a single bill and re-
Legislative Update Continued

Social Security and Medicare

receive expedited consideration on the Senate floor. However, this would occur only if there were an agreement between the House and Senate on a budget resolution. A similar reconciliation process is under way in the House, where committees are marking up deficit reduction plans.

Postal Reform Bill

On April 24, the Senate approved S. 1789, a bipartisan bill designed to restructure the U.S. Postal Service. Several of its provisions could have implications for federal employment.

Although the Senate bill authorized postal unions to negotiate the creation of a new health program, amendments assured that any new health coverage would be equivalent to that provided by the Federal Employees Health Benefit Program, prohibited the creation of two risk pools and stipulated that Medicare would continue to be optional.

The new bill would change the Federal Employees’ Compensation Act by reducing the compensation of disabled employees at age 65 to 50 percent of the injured employee's pre-disability salary. This would severely cut benefits for those injured early in their careers. Employees younger than 65 would receive a standard compensation rate of 66.7 percent, whether or not they have dependents. Employees now receive as much as 75 percent if they have dependents.

Sen. Daniel Akaka, D-Hawaii, was unsuccessful in attempting to amend the Senate bill with the FECA reform measure passed by the House. The House version would cover injuries caused by acts of terrorism as war-hazard risks, reimburse services of physician assistants and advanced practical nurses, streamline the claims process for traumatic injury in designated armed conflict zones, and raise maximum disfigurement and funeral expenses benefits.

Trustees’ Reports

The trustees for both Social Security and Medicare released reports on the solvency of the programs in April. Some reaction to the reports was alarmist, reflecting a misunderstanding of what the reports actually indicated about insolvency.

A program becomes insolvent when revenues and trust fund balances will not cover 100 percent of projected costs.

While both Medicare A and Social Security face serious long-term financial challenges, the programs are not at risk of bankruptcy or ceasing operations. (It should be noted that the Medicare Trustees’ Report does not project that Medicare Parts B, physician services and diagnostic tests, and D, prescription drugs, will become insolvent.

Social Security will be able to pay full benefits until 2033, three years earlier than in last year’s report, and about 75 percent after that without policy changes. (Although its Disability Insurance Trust will be exhausted in 2016, it is standard practice for Congress to reallocate funds between the two Social Security Trust Funds, Disability and Old Age, before reaching a crisis point. The 2033 date assumes such a reallocation.) Because the Affordable Care Act would shift some employee compensation to taxable wages, it would cause a small improvement in Social Security finances.

Medicare’s Hospital Insurance Trust fund will be able to pay 100 percent of the costs of hospital insurance coverage through 2024. After that funds will be sufficient to pay 87 percent of costs, and over the next 75 years an average of 74 percent. Because the ACA actually improves Medicare’s bottom line, repeal of the ACA would hasten insolvency by eight years.
Faced with the mounting deficit and debt, decision makers in Congress and think-tanks have turned their attention to Medicare. Unless cost-cutting measures are taken, Medicare spending will continue to rise sharply and, according to the Medicare Actuary, will constitute 10.4 percent of the gross domestic product by 2080.

One way to cut costs is to implement reforms, such as reducing ineffective or unnecessary tests and treatments, and increasing the use of preventive care and generic drugs. Another response, which is now the subject of congressional hearings and discussed here, is to use premium supports or vouchers to create market incentives for recipients, health providers and health insurance companies to reduce costs.

Medicare is now primarily a defined benefit program in which beneficiaries in a fee-for-service plan pay for a specified set of health services through premiums, deductibles and co-pays. Premium support advocates argue that since most health costs are fully paid for in a fee-for-service plan (plus a Medicare or Federal Employees Health Benefit plan), there is little incentive for patients and health care providers to question whether they need tests or treatment.

Defined-contribution or premium support programs, in contrast, would give a guaranteed dollar amount to recipients to pay for health care insurance, and could, but would not necessarily, specify a minimum set of health services and procedures that must be covered. Beneficiaries could choose among health plans and, if the premiums were more costly than the guaranteed contribution, pay the difference. The concern of premium-support critics is that costs would be shifted to recipients, not all of them.

Continued on page 8
We are pleased to inaugurate the AFSA Memorial Marker for Foreign Service personnel. Like those used for the various branches of the military, these markers celebrate and commemorate the service of Foreign Service personnel and their spouses or partners.

AFSA has commissioned an elegant, five-inch architectural bronze marker, etched with a modification of the Great Seal and the words United States Foreign Service. These high-quality markers, which come in velour presentation boxes, can be affixed to gravestones or used for other presentation and commemorative purposes. The markers can be purchased for $149 through PayPal at www.afsa.org/markers. Or an order form may be requested at (202) 719-9715.

AFSA believes the markers, which will be available for purchase in mid to late May, will help give deserved recognition to the importance of service to our country.

The idea for the markers came from Georgette Garner and her son, Lt. Col. Robert J. Garner, who asked AFSA to find a way to commemorate their husband and father’s Foreign Service career. The design was created by Chris Murray, the son of AFSA member Al Fairchild.
New AFSA Retiree Associate

AFSA is delighted to welcome Matt Sumrak as our new Associate Coordinator for Retiree Counseling and Legislation.

Matt graduated from John Carroll University with a bachelor’s degree in economics and then spent a year volunteering with the Jesuit Volunteer Corps. Currently he is enrolled in the Master of Public Policy Program at George Mason University.

He previously worked at a nonprofit law firm in San Jose, Calif., as an economic rights advocate, helping clients with mental health disabilities with their benefits. He met his fiancé, a fellow Jesuit Volunteer, while volunteering in California.

The addition of Matt to our staff will enable AFSA to broaden and deepen its retiree services. He will respond to member inquiries and requests for assistance, follow federal benefit issues on the Hill, increase AFSA’s participation in the Federal and Postal Union Coalition and design and schedule a series of programs on retiree and benefit issues. Matt will be available five days a week at AFSA Headquarters, so please drop in or call him and get acquainted.

A New Trend in Medical Practices

Your doctor might be making house calls again soon. There is a growing trend in the medical field towards concierge medicine, a relationship between a patient and primary care physician in which the patient pays an annual membership fee. This has allowed physicians to take on fewer patients and provide a more focused level of care to the patient at a lower administrative cost to their practice. This trend responds to the growing need to fix the way we pay for primary care.

So what does this mean for retirees with a Federal Employee Health Benefits plan and Medicare?

There are a couple of things to keep in mind when dealing with a membership practice. First, membership fees are not reimbursed by your FEHB or Medicare plan. FEHB pays only for illnesses and accidents. Membership fees will be an out-of-pocket expense, but will not affect your coverage. Even if you join a membership practice, your covered medical expenses will still be eligible for reimbursement by FEHB and Medicare.

The overall effect of a membership practice on your medical expenses will be determined by whether your physician participates or does not participate in Medicare, not on whether he or she is in a membership practice. Remember, a private contract physician has nothing to do with Medicare. Medicare will not compensate the physician, and FEHB plans will pay only 20%, which is the amount they would have paid after Medicare’s payment.

Concierge medicine will continue to rise in popularity, especially in high cost areas and where the public demands it. However, the trend is not without controversy, as some argue that the system is not going to work for patients who cannot afford the membership fees. Matt Sumrak, Associate Retiree Director
AFSA Seminar on FEHB and Medicare

On April 23, AFSA welcomed Paula S. Jakub, executive vice president of the American Foreign Service Protective Association, to speak to our members about the coordination of the Federal Employees Health Benefits Program and Medicare. The full house attested to the importance the subject to federal employees nearing retirement.

Ms. Jakub talked about how FEHB and Medicare work together. She pointed out that for those who choose to retire overseas, “Medicare and overseas are like oil and water — they do not mix.” Medicare does not cover overseas claims, so retirees must rely solely on their FEHB coverage.

She then addressed widespread confusion surrounding the four parts of the Medicare program and how they relate to FEHB:

- Part A is free hospital insurance available generally to everyone once they turn 65. Enrollment in Part A is automatic once you have enrolled in Social Security.

- Part B is medical insurance, which covers your doctor visits and has a premium.

- Part C is Medicare Advantage, a private option that provides comprehensive medical coverage. To enroll you must be enrolled in Part A and Part B.

- Part D offers prescription drug coverage. The FEHB plan provides the same or better prescription drug coverage as Part D, so federal employees and retirees should not enroll in Part D.

Ms. Jakub also noted that Medicare has a specified enrollment period. The initial enrollment period covers seven months: three months before your 65th birthday, your birthday month and the three months after it. If you fail to enroll in Medicare during that period, you will have to pay a permanent penalty.

She also noted that your doctor may or may not accept Medicare and that this has financial implications. Some doctors agree to accept the Medicare-approved amount for services, some charge higher amounts, which may mean that you pay the differential, and some doctors ask you to sign a contract agreeing not to seek Medicare reimbursement in any manner.

If your doctor participates in Medicare, she explained, then generally Medicare pays first (or is primary) for most services and your FEHB plan pays for the services not covered by Medicare. As a result, Medicare and the FEHB plan generally combine to provide nearly complete coverage for all expenses, except for prescription drugs.

Additionally, she emphasized that enrolling in Medicare Part B is a personal decision, based on how much risk you are willing to take, your overall health and your income.

She recommended the following Web site, which has a calculator that will help you calculate your Medicare costs: www.medicare.gov/navigation/medicare-basics/eligibility-and-enrollment.aspx.

The presentation ended with Ms. Jakub answering an abundance of questions from the packed room.

If you would like more information on this topic, or have your own questions, please feel free to contact Paula Jakub at AFSPA at (202) 833-4910 or by e-mail at paula.jakub@AFSPA.org.

The video of Ms. Jakub’s presentation can now be found on our Web site at www.afsa.org/AFSAvideos.aspx. Her PowerPoint slides will be available at a later date. Matt Sumrak, Associate Retiree Director
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For more information about creating a Social Security online account, go to www.socialsecurity.gov/mystatement/

Benefits Rally in St. Louis

AFSA called out its members in Missouri and Illinois, asking them to rally with members of the National Treasury Employees Union and the American Federation of Government Employees in St. Louis on April 14. The rally, which drew about 30 participants under rainy skies, featured Congressmen Russ Canahan and Lacy Clay, both Democrats from Missouri.

Recognizing that federal benefits are on the chopping block in Congress, AFSA hopes that joint efforts such as this will generate a much more community based and effective campaign than any individual organization could mount.

Local events give an opportunity to explain to citizens the work we do as federal employees and our service to the American people. Matt, Sumrak

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whom would be financially able to purchase coverage as health costs rise.

While the various proposals have many technical differences, there are several issues that are of central concern because of their possible effect on recipients, Medicare spending, health care providers and health plans.

First, would Medicare continue to provide a fee-for-service or traditional Medicare option, or would it become privatized? If the latter, how would the plans be regulated and managed through exchanges?

Second, how would the government contribution be determined? Would it be adjusted to reflect rising health costs or by some other measure not directly related to health costs? For example, the common yardsticks, the Consumer Price Index and the gross domestic product, historically have not reflected the full increase in health costs. Thus, their use would shift the cost increasingly to beneficiaries or result in reducing the range of health services.

Third, what protections would be provided for low-income beneficiaries and the elderly and disabled?

Much of this article is based on The Brookings Institute’s Premium Support: A Primer, which can be found at www.brookings.edu/~/media/Files/rc/ppers/2011/1216_premium_support_primer/1216_premium_support_primer.pdf and the Kaiser Family Foundation’s Comparison of Medicare Premium Support Proposals, which can be found at

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