



AFSA NEWSLETTER

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Budget Follies

The Crisis

Once again, Congress and the Administration face three critical debt negotiation flashpoints in quick succession: (1) the FY2014 federal budget process, (2) sequestration cuts, and (3) the debt ceiling, all of which provide opportunity to whittle away at federal benefits.

It is unlikely that Congress will fund the federal government for FY2014 by the October 1 deadline. Lawmakers have not agreed on a budget resolution that provides a basis for reconciling divergent House and Senate budget resolutions, and neither house has made any real progress on appropriations bills.

If it does not reach a budget agreement, Congress will likely pass a continuing resolution (CR) to fund government operations. If Congress fails to pass a CR, the government will shut down, except for essential services, such as issuing Social Security checks. Moreover, unless Congress takes action in any budget deal to adjust or repeal the effect of the Budget Control Act of 2011, sequestration cuts will continue through 2021. With little Congressional support, it looks like the President will have to agree to keeping current sequestration levels.

The Office of Management and Budget estimates that the debt ceiling will be reached in mid-October. Unless Congress agrees to lift the ceiling, the United States will default on its debt payments. In a memo to heads of Executive Departments and Agencies, OMB reminded agencies of their responsibility to plan for agency operations under the contingency of a government shutdown.

House Republicans appear unwilling to come to terms unless the Administration agrees to cuts in public services and economic investment. Most recently, they have expressed opposition to the "alternate CR" proposed by House Speaker John Boehner (R-Ohio).

One Likely Outcome

Although there are a number of congressional demands for budget cuts, including defunding the Affordable Care Act, a change to the Consumer Price Index (CPI) seems likely. Not only is there support for changing the cost-of-living computation in both houses of Congress, President Obama included a change to the chained Consumer Price Index in his FY2014 budget request.

Regrettably, arguments that the chained CPI would significantly reduce Social Security benefits and federal civilian annuities over the long term, and raise federal income taxes, have not gotten any traction.

Although we discussed the chained CPI in previous newsletters, here is a summary of key things one needs to know about this probable change.

First, use of the chained CPI would result in a cost-of-living adjustment that is 0.3 percent lower than that set by the CPI now used. Although the decrease appears small, it will compound annually. After 10 years federal annuities and Social Security benefits will be 3 percent less than they would have been under the current method of computation; after 20 years, 6.2 percent less; and after 30, years 9.4 percent less.

Second, primarily because of rising health costs, neither the current CPI, nor the chained CPI, accurately reflect inflation for seniors. The 40 million seniors who rely primarily or solely on Social Security do not have the flexibility that CPI proponents claim they have: they are not able to substitute one item when the price of another item increases as chained CPI proponents claim. Their choices are stark: health care, housing or food.

In addition, the chained CPI would reduce yearly tax adjustments for personal exemptions, the standard

DOMA and Survivor Benefits

On June 26, the Supreme Court ruled that Section 3 of the Defense of Marriage Act (DOMA) is unconstitutional. As a result, government agencies are now in the process of explaining how federal benefits will be affected by this decision.

In this first installment, we will focus on the topic of survivor benefits. DOMA's effect on health benefits will be discussed in the next *Newsletter*.

Survivor Benefits

Under federal law, current and former spouses are eligible for retirement benefits as long as certain qualifying periods (length of marriage) and other conditions are met. Those laws apply to retiring Foreign Service members who are or were legally married to a same-sex spouse, regardless of the member's state of residency.

Spousal Benefits

At retirement, married Foreign Service members (now including those legally married to same-sex spouses) must note this in their retirement applications and in elections of survivor annuity benefits. By law, spouses qualify for full survivor benefits if certain conditions are met, unless they provide notarized consent to receive less than full survivor benefits. Retiree annuities are then reduced to pay for those benefits.

Former Spouse Benefits

At retirement, Foreign Service members (now including those who were legally married to a same-sex spouse but subsequently divorced) must inform the Office of Retirement of any previous marriages, so that a determination can be made about whether the former spouses are eligible to receive a portion of their retiree annuities.

Foreign Service Retirees

Under longstanding federal law, spouses of Foreign Service annuitants qualify for certain retirement benefits, as long as applicable conditions are met. Those same laws now apply to the legally married same-sex spouses of Foreign Service annuitants.

Insurable Interest

Foreign Service retirees who are legally married to a same-sex spouse and who — prior to June 26, 2013 — elected to provide those individuals with survivor annuities under the "insurable interest" option may now change that election to a survivor annuity for a

spouse. In some cases, the annuity reduction for providing a survivor annuity for a spouse will be less costly than providing for an insurable interest annuity.

The deadline for making an election based on a same-sex marriage that existed on June 26, 2013, is **June 26, 2015**. To do so, contact the HR Service Center at HRSC@state.gov or 1 (866) 300-7419 (toll free) or 1-843-308-5539 (outside of the U.S.).

Survivor Benefits

Foreign Service retirees who were legally married to same-sex spouses as of June 26, 2013, are now eligible to elect a survivor annuity for that spouse. Retirees have until **June 26, 2015** to make an election. To do so, contact the HR Service Center.

Foreign Service retirees who in the future become legally married to same-sex spouses may elect to provide survivor annuities for their new spouses.

The deadline for making those elections is one year after the marriage for retirees under the Foreign Service Retirement and Disability System and two years after the marriage for retirees under the Foreign Service Pension System. When Foreign Service annuitants elects to provide survivor annuities for their spouses, the retiree annuities are reduced to pay for that benefit.

In addition, Foreign Service retirees (now including those who were legally married to a same-sex spouse) should inform the Department of State if their spouse dies so that any reduction in an annuity to provide a survivor benefit can be terminated. To do so, contact the HR Service Center at HRSC@state.gov or 1 (866) 300-7419 (toll free) or 1 (843) 308-5539 (outside of the U.S.).

For more department information on survivor benefits, go to 1.usa.gov/1601v0F



A new service for AFSA members. To sign up, send a request to mediadigest@afsa.org.

More on Divorce and the Foreign Service

AFSA recently held a seminar and panel discussion on the topic of divorce in the Foreign Service; the video is available at bit.ly/14JFSYh. In this article, we will focus more extensively on the issues associated with separation of spouses at post.

An employee or spouse can find comprehensive information about divorce in the Foreign Service in general by visiting AFSA's divorce page at www.afsa.org/divorce and the Family Liaison Office's newly revised *The Foreign Service Family and Divorce* page at 1.usa.gov/18WG3Nf. Both sites contain updated information on many topics including: counseling, departure from post, support and jurisdictional considerations, legal assistance, children and divorce, retirement and health benefits, and financial and privacy considerations. These two resources are a great place to start to gain valuable information.

The department views divorce as a civil matter that requires the advice and services of an attorney, licensed in the state where the divorce will be filed.

In order to provide assurance of continued family support and access to family property, the department requires submission of the following upon separation of an employee and spouse on travel orders at post:

- A signed statement of mutual consent, stating that one marital partner is not deserting or abandoning the other.
- Authorization to receive goods shipped from post, which will allow the spouse to receive household effects.
- Legal property settlement or list prepared by employee stating specifically what the spouse may remove from storage.
- Joint property settlement that will allow the spouse access to goods in storage.

As long as the couple has not yet legally separated or divorced, the separating spouse is not eligible for a separate maintenance allowance.

When a permanent marital separation or divorce is intended, the post *may*, however, provide separate housing for the spouse, if available. This may be done to provide time for the spouse to prepare for departure and allow children to finish a school term. However, there are no regulations that require this.

Post management can curtail the employee's assignment if the marital situation reflects adversely on the image of the mission, if there is suspected marital abuse, or if by curtailing, the couple is more likely to reach a settlement.

A Foreign Service employee may not use an assignment abroad or diplomatic status to avoid service of papers.

A spouse has an *automatic* right to a portion of the employee's pension if he or she has been married to the employee for at least 10 of the employee's years of creditable government service, at least five of which were with the Foreign Service and the spouse does not remarry before the age of 55. If the spouse meets these requirements, he or she has a right to a prorated share of up to 55 percent of the retirement pension. Since this right is automatic, spouses should be careful not to sign the right away without careful consideration and legal advice. Foreign-born spouses, in particular, may not be aware of their rights in this regard and should seek counsel before signing any waiver.

For a qualifying spouse, there is a 60-day window following the final divorce decree during which the spouse may enroll in a government health plan at his or her *own* expense. To qualify, the spouse must have been enrolled in one of the government health plans as a family member at any time during the previous 18 months and must not have remarried before the age of 55. To enroll, a spouse should contact the Office of Retirement in the Department of State, or the Personnel Office of his or her agency during the 60 days following the divorce.

If the spouse does not qualify for a pro rata share of the pension, the spouse may still be eligible for 36 months of Federal Employee Health Benefits coverage if he or she was enrolled as a family member in a FEHB health plan at the time of divorce.

Wages of an employee or pension of a retiree can be garnished for child support or alimony payment if the ex-spouse presents a court order for debt garnishment to the Office of Legislation and General Management at the Department of State, or to his or her agency.

Retirement Planning Shortfalls

A survey administered to 200 Foreign Service members at the start of a recent Retirement Planning Seminar at the Foreign Service Institute highlighted both strengths and weaknesses in their retirement planning.

Strengths included the fact that most of the respondents already had at least a basic understanding of many key retirement planning topics. But the survey also identified a number of shortfalls in retirement preparations and knowledge.

While only current employees were surveyed, seven of the identified shortfalls are issues that retired Foreign Service members should also pay attention to. This article lists those shortfalls, along with information to help you bridge any similar gaps in your own planning.

Gaps in Actions

Have Not Updated Beneficiary Designations

Ten percent of respondents said that they knew that their beneficiary designations were not current for accounts such as their life insurance and TSP savings. Another 17 percent of respondents were unsure if their beneficiary designations were up-to-date.

Every year, there are cases of death benefits not being paid to the immediate next-of-kin because the annuitant has not updated their beneficiary designations after marriage, divorce, or other relationship changes. So, please check your own records to make sure that your beneficiary forms reflect your current wishes. If not, submit new forms:

- Retirement benefits designation (DS-5002): obtain from RNet.state.gov and submit to the Human Resources Service Center, 1999 Dyess Ave., Building E, Charleston, SC 29404.
- Federal Employees Government Life Insurance (SF-2823): obtain from RNet.state.gov and submit to OPM Retirement Operations Center, P.O. Box 45, Boyers, PA 16020.
- Thrift Savings Plan (TSP-3); obtain from www.TSP.gov and submit to Thrift Savings Plan, P.O. Box 385021, Birmingham, AL 35238.

Do Not Have Estate Planning Documents

Thirty-nine percent of respondents did not have an up-to-date will and/or trust and other estate planning documents such as a power of attorney.

While all states and the District of Columbia have laws directing the division of assets of people who die without wills, those laws can vary widely. Unless you know the default inheritance laws of your state of residence and are sure they match the division of assets you would want, it is a good idea to execute a will or trust and other estate planning documents.

Gaps in Knowledge

Unclear about Impact of Divorce on Retirement Benefits

Nearly half (47 percent) of married respondents had little or no understanding of how their pension and other benefits could be affected by divorce.

Federal law governs division of Foreign Service retirement annuities between former spouses. Divorce decrees and property settlement agreements can also affect the division of retirement benefits. Thus, all annuitants (retirees, their survivors, and former spouses) should keep the Department informed of changes in marital status (marriage, divorce, or death of spouse). Notify the Human Resources Service Center at HRSC@state.gov or call 1 (866) 300-7419.

Unclear about How Retirement Benefits are Taxed

Similarly, 46 percent of survey respondents had little or no understanding of how retirement benefits are taxed and what strategies could reduce or defer those tax consequences.

The federal government taxes retirement income from pensions (excluding a portion representing your contributions), Social Security (if the recipient's income from other sources exceeds a base amount), and TSP withdrawals (excluding those from Roth TSP accounts). The only way to reduce the tax bite on pension and Social Security income is to reduce income from other sources in order to drop to a lower tax bracket.

Retirement Planning Shortfalls (Cont'd)

Taxes on TSP withdrawals depend on the amount and timing of withdrawals and can be reduced or entirely deferred until age 70½ by limiting or delaying withdrawals. Roth TSP withdrawals are not subject to taxation as long as vesting requirements are met.

State and local taxation of retirement benefits varies with some jurisdictions excluding them from taxation. Consult your taxing authority or AFSA's annual tax guide for details.

Unclear about Long-Term Care Options and their Usefulness

Thirty percent of respondents had little or no understanding of long-term care insurance options and costs or of how they would cover long-term care expenses absent such insurance.

Long-term care insurance pays for long-term care services at home, in a nursing home, or at another long-term care facility. According to the Department of Health and Human Services, at least 70 percent of people over age 65 will require some long term care services at some point — expenses that most health insurance plans (including the Federal Employees Health Benefits Program) do not cover. Thus, annuitants who are concerned about their long-term finances should weigh the costs and benefits of long term care insurance.

For information on the Federal Long-Term Care Insurance Program, go to www.ltcfeds.com. Several private insurance companies also offer policies.

Unclear about TSP Risk versus Reward

Twenty-nine percent of respondents had little or no understanding of the fact that TSP bond funds which offer the safety of capital preservation may not generate long-term gains that out-pace inflation.

Over short periods of time, stock funds can dramatically underperform bond funds. For example, in 2008 the TSP's C fund fell 36.99 percent while the TSP's G fund grew 3.75 percent. However, over long periods of time, stock funds outperform bond funds. For example, between 2003 and 2012, the G fund had an average annual return of 3.61 percent while the C fund had an average annual return of 7.12 percent. Thus, in selecting a TSP portfolio,

participants must decide how much risk they are willing to take.

A key consideration is your time horizon. If you hope to remain invested in the TSP for many more years, you may want to take more risk now in your TSP account to increase your likelihood of generating gains over time that out-pace inflation.

Unclear about Life Insurance Needs

Twenty-one percent of respondents had little or no understanding of how much life insurance they would need in retirement.

Life insurance needs depend on how much money you wish to leave for your survivors (for example, to pay off a mortgage or leave an inheritance). Most employees carry into retirement their basic coverage under the Federal Employees Group Life Insurance program. That coverage is automatically reduced after age 65 (unless you pay a higher premium to avoid that) until it reaches 25 or 50 percent of its starting level (depending on the option you pay for). Many private insurance companies offer their own plans.

To Learn More

More information on these topics is available on the Office of Retirement's Internet site, The Retirement Network (RNet), at RNet.state.gov.

RNet offers a wealth of information, including a searchable database of 300 Frequently Asked Questions on Foreign Service retirement issues. See also the *Foreign Service Annual Annuitant Newsletter*, which is mailed every November to each Foreign Service annuitant and is posted on RNet.

John K. Naland is the director of the Office of Retirement at the Department of State. A 27-year Foreign Service veteran, his overseas assignments include Colombia, Mexico and Iraq. He has twice served as AFSA president.

His essay "Assistance After Retirement" appeared in AFSA's 2013 Directory of Retired Members.

One Percent: Better Than Nothing?

President Obama recently proposed a new federal pay plan for 2014 that would end the current salary freeze and provide a 1-percent increase in pay for federal employees. The president separately proposed a 1-percent boost in monthly basic pay rates for military service members.

This is the same amount the president requested in his FY 2014 budget proposal.

In a letter to House and Senate leaders, Obama wrote, "...federal employees have already made significant sacrifices as a result of a three-year pay freeze. As our country continues to recover from serious economic conditions affecting the general welfare, however, we must maintain efforts to keep our nation on a sustainable fiscal course." He also maintained that his pay proposal "will not materially affect the federal government's ability to attract and retain a well-qualified federal work force."

The presidential pay raise plan will go into effect in FY2014 unless Congress blocks it.

Heads Up: Social Security and You

If you have questions about when you and/or your spouse should apply for Social Security Benefits, or how the Defense of Marriage Act will affect your same-sex spouse's Social Security benefits, you are in luck.

Edward A. Zorndorfer, a regular contributing author to *My Federal Retirement* will speak about *Social Security and You* on Thursday, Nov. 14 at 2:00 p.m. at AFSA. After making his presentation, he will take questions from the audience. He will also distribute printed information on the subject to audience members.

Ed is a Certified Financial Planner, an instructor of many federal employee retirement seminars across the country and is an author of numerous books on federal retirement. He is also a retired federal government employee with 32 years of service at the Department of Commerce, and a former columnist for the *Federal Times*.

AFSA will send out invitations in early November.

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MOMENTS FROM DIPLOMATIC HISTORY

A Book You Can Swear By

Traditionally, U.S. government officials put their hands on the Bible for their swearing-in. In recent years, some have used alternatives, such as the Qur'an or the U.S. Constitution. Amb. Peter de Vos, however, had nothing of the sort readily available when he was rushed off to Liberia in 1990, set to take over the post in the midst of a raging civil war. Amb. Johnny Young recounts the unusual and creative swearing-in ceremony in an October 2005 interview with Charles Stuart Kennedy.

YOUNG: I'll never forget this particular incident. Pete de Vos was all ready to go. He had spent a few days with us. We were sending cables back and forth. We were observing this situation that was growing in intensity as the fighting grew closer and closer to the capital city. We then began to talk about possible evacuations and things like that, but no evacuation had been made at that point. Pete was all set to go. We rented the plane for him to go to Monrovia. We took him out with an embassy car. Just before he got on the plane we got a telegram that said you cannot go to Liberia until you have been sworn into office. We thought, My God, how are we going to do this because we needed to get him there as quickly as possible. We got him on the radio because we got the driver on the radio and we put all of our heads together and I said, "Well, we're going to have to do this swearing in via two-way radio."

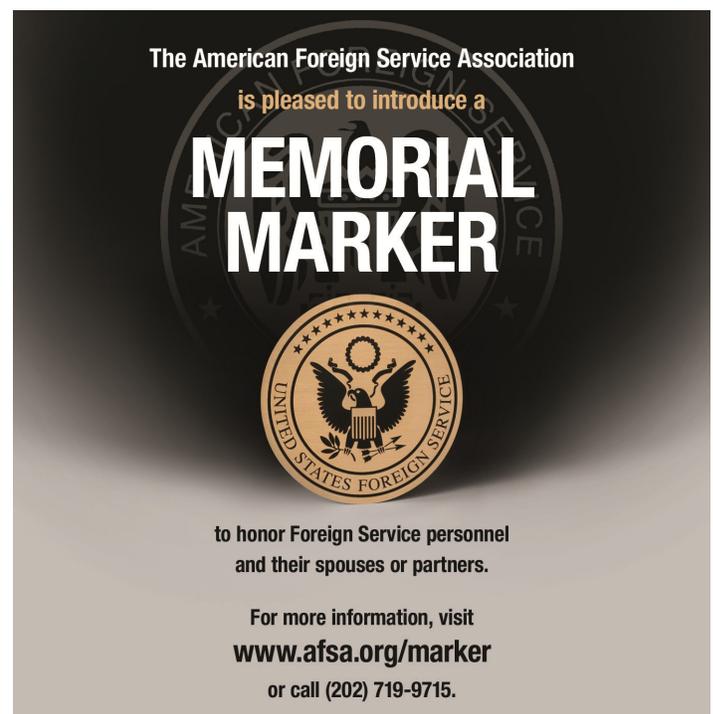
We spoke to Pete and we said, "Do you have a Bible with you?" He said, "I don't travel with a Bible." We said, "Do you have anything that could substitute for a Bible?" He said, "Well, I have my address book."

We said, "Take that address book out and put your hand on the address book, raise your right hand." I think he got the pilot on the plane to hold the address book for him and he put his hand on the address book and then the consular officer, Allen Latimer, I said, "Allen, here's the oath. You've got to get him to repeat it over the phone and then we can sign it and certify it and send it out to him and he can sign it and he'll have his copy in the works" and that's how we did it. It was a riot.

An officer in a holding pattern in Sierra Leone at the time, Charles Gurney, wrote a cable on this that became a classic that described how Pete de Vos

was out in the middle of this field. There was a man passing with goats and looking at him with his hand on this address book and his other hand in the air, you know, listening to the radio saying, "I, Peter de Vos, do solemnly swear" and on and on. It turned out well and he went on to Liberia.

This excerpt is taken from the Association of Diplomatic Studies and Training oral history collection, which can be found at <http://adst.org/oral-history/oral-history-interviews/>. The collection consists of more than 1800 oral histories, completed over the last quarter century.



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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
www.afsa.org/retiree

Most Likely (Cont'd)

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deduction, and income thresholds dividing the tax brackets, increasing federal taxes, primarily for lower and middle-income taxpayers.

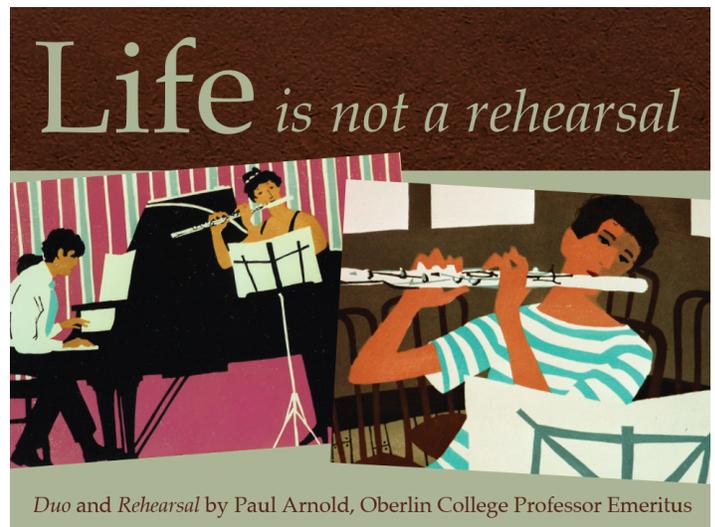
A Joint Committee on Taxation report prepared for Congress concluded that the chained CPI would increase the tax liability for taxpayers with incomes between \$10,000 and \$20,000 by 14.5 percent; the liability for those with incomes between \$20,000 and \$30,000 by 3.5 percent; and the liability for those with incomes of \$1 million and more by only 0.1 percent.

Support the AFSA Scholarship Fund

The AFSA Scholarship Fund annual appeal for tax-deductible donations should have hit mailboxes recently. Please consider a contribution and send it to AFSA in the enclosed postage-paid envelope. You may also make a secure credit card donation online via PayPal at www.afsa.org/donate.

Applications for the 2014-2015 school year will be available on Nov. 15, 2013, and due Feb. 6, 2014 (merit scholarships) and March 6 (financial aid scholarships).

Direct any questions to Lori Dec, AFSA Scholarship Director at dec@afsa.org or visit the scholarship web site at www.afsa.org/scholar.



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