



# AFSA NEWSLETTER

FOR RETIREES AND MEMBERS IN TRANSITION

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## What's Ahead for Federal Benefits?

Although Congress has flirted with proposals to cut federal benefits in recent years, there now are serious – but as yet unsuccessful – legislative efforts to do so. It is possible that cuts or curtailments in federal benefits may be proposed by the National Commission on Fiscal Responsibility and Reform, which is scheduled to send its recommendations to Congress in early December.

AFSA will keep you informed about developments. In the meantime, here is some base-line information about the legislative proposals, the mandate of the Commission on Fiscal Reform and a related report by a Senate Special Committee on Aging on Social Security solvency.

### Salary Legislation

In late May, both the Senate and House rejected proposals to freeze federal salaries and to deny federal employees the very modest 1.4-percent pay raise proposed by President Barack Obama for 2011. The administration supports pay parity and called for a 1.4 percent increase for both military members and civilian employees.

Sens. Tom Coburn, R-Okla., and John McCain, R-Ariz., introduced an amendment to a supplemental spending bill that would have frozen the salaries of federal employees for one year to offset the \$60 billion cost of supplemental appropriations for Afghanistan, Iraq and disaster

relief. They estimated that the salary freeze would save \$2.6 billion. This and additional amendments, including ones that would mandate collection of unpaid taxes from federal employees, eliminate non-essential government travel and reduced unneeded duplication overhead and other spending would, according to them, save a total of \$119.9 billion. The bill would also have place a cap on federal staffing.

On May 28 the House killed Republican efforts to freeze the salaries of federal workers in Fiscal year 2011, voting 227 to 183 to table a proposal introduced by Rep. Michele Bachmann, R-Mich. Bachmann said that the freeze would save about \$2 billion in the first year and, although the freeze would not extend beyond that year, potentially \$30 billion over a 10-year period.

In opposing the freeze, federal unions argued that it would have a negligible effect on a \$1.4 trillion deficit and would adversely affect the federal work force and essential government services, such as Social Security processing.

### Fiscal Reform Commission

On Feb. 18 President Obama signed an executive order establishing the bipartisan National Commission on Fiscal Responsibility and Reform under the leadership of its co-chairmen, Democratic former White House Chief of Staff

## What's Ahead for Federal Benefits Continued

Erskine Bowles and former Republican Senate Whip Alan Simpson.

The commission is made up of 18 members. Of those members, six are appointed by the president, with no more than four from the same political party; six are appointed from the U.S. Senate – three by the majority leader and three by the minority leader; and six are appointed from the U.S House of Representatives – three by the Speaker of the House and three by the Minority Leader.

The commission is charged with making recommendations to reduce annual deficits to 3 percent of the national economy by 2015 and to improve the short and long-range fiscal outlook. It is expected that the recommendations will include proposals to address the growth in entitlement spending and the gap between the projected revenues and expenditures of the federal government.

Social Security is likely to be a main target of the commission. Simpson declared that the Commission would go after “the big three – Medicaid, Medicare and Social Security.” And, Co-Chair Bowles said that “We're going to mess with Medicare, Medicaid and Social Security because if you take those off the table, you can't get there.”

The final report of the Commission must be approved by at least 14 of its 18 members, which may be difficult to achieve. Both the Senate Majority Leader and House Speaker have agreed to vote on any final report adopted by the commission.

### Committee on Aging

On May 18 Sen. Herb Kohl ,D-Wisc., chairman of the Senate Special Committee on Aging, sent copies of the official committee report on Social Security to all 18 members of the National Commission on Fiscal Responsibility and Reform.

Emphasizing that a majority of America's seniors rely on Social Security as their primary source of income, the report calls on Congress to enact modest changes to Social Security to bring its long-term financing into balance and improve benefits for those who need them most. “By implementing one or more of these modest changes, we can ensure solvency and even strengthen benefits for those who count on their monthly check the most,” said Kohl.

The report contains a list of options (none of which were endorsed by the committee or its members), noting that there are numerous combinations of tax and benefit provisions that could be considered. These combinations include variations on increasing contributions, eliminating or modifying the tax cap, extending coverage, reducing the cost-of-living adjustment and reducing benefits.

Bonnie Brown

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## Legislative Update

### FEHB and Dependent Children

The comprehensive health care legislation recently signed into law includes a requirement that group health plans cover dependent children up to age 26 on their parents' health insurance by September 2010.

While many insurers have decided to extend dependent coverage before that deadline, the law authorizing the Federal Employees Health Benefit Program prevents the Office of Personnel Management from allowing federal workers and annuitants to extend coverage for their dependent children until January 2011.

Sen. Ben Cardin and Rep. Chris Van Hollen, both Maryland Democrats, introduced companion legislation (S. 3341 and H.R. 5200) that would amend the law governing the FEHBP to extend coverage to young adults up to age 26 during the current contract year. Both bills are still pending.

In another attempt on June 9, Sen. Cardin attached an amendment to the must-pass H.R. 4213 (the tax extenders bill) that similarly would have expedited FEHBP coverage to dependent children. The amendment failed to receive the 60 votes needed to clear a procedural obstacle.

### Domestic Partner Benefits

On June 17, 2009, President Obama announced that he was extending certain federal benefits to same-sex domestic partners, including access to long-term-care insurance benefits and

use of sick leave to care for ailing domestic partners and children not related by blood or adoption.

The next day, Secretary of State Hillary Rodham Clinton announced an additional list of benefits that would be extended to the same-sex partners of members of the Foreign Service. The additional benefits and allowances for declared same-sex domestic partners of eligible employees serving overseas include diplomatic passports, inclusion on employee travel orders to and from posts abroad, shipment of household effects, inclusion in family-size calculations for the purpose of making housing allocations, family member preference for employ-

#### Worried About Long Term Care?

The Federal Long Term Care Insurance Program (FLTCIP) **has raised its rates by as much as 25%**

*AFSA Plans are still discounted  
for AFSA members and their families*

The price of care can be devastating.  
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*AFSA Sponsored Long Term Care*

## Legislative Update Continued

ment at posts abroad, use of medical facilities at posts abroad, emergency travel for partners to visit gravely ill or injured employees and relatives, inclusion as family members for emergency evacuation from posts abroad, subsistence payments related to emergency evacuation from posts abroad, inclusion in calculations of payments of overseas allowances (e.g., payment for quarters, cost of living, and other allowances), representation expenses, and training at the Foreign Service Institute.

H.R. 2517, the Domestic Partner Benefits Act, is the legislation that would open benefits of federal employees, such as health care and retirement benefits, to same-sex couples.

*Casey Frary, Legislative Director*

## Medicare Physician Cuts

As of June 14, lawmakers still have taken no action to delay a 21 percent cut in Medicare payments to physicians. Physicians continue to wait for word as to how much and when they will be paid. And patients, particularly seniors, worry that the cuts will cause physicians to reduce or eliminate services for Medicare enrollees.

The 21-percent cut in the rate the government pays physicians to treat patients went into effect on June 1. The Centers for Medicare & Medicaid Services, however, delayed processing claims for 14 business days, in the expectation that Congress would delay the cuts and make this action retroactive, as it has in past years.

The House of Representatives voted May 28 to delay the 21 percent pay cut for 19 months, but the Senate has not taken action.

## FSJ Retiree Survey

The *Foreign Service Journal* conducted a survey in January on readers' satisfaction and demographics. The survey had a response rate of 72 percent of the retired AFSA members polled. We wish to thank all respondents for their active participation. The survey revealed interesting facts that we want to share with our readers.

The survey was based on a sample of 242 randomly-selected retiree members. Of those who responded, 62 percent were male and 38 percent female. Retired AFSA members who are 86 years old or over represent 13 percent of the retired community. However, 40 percent of the respondents are still in the work force. This, along with the high rate of travel, shows the enterprise and activity of the retired community.

Approximately 25 percent of our respondents travel five times or more per year domestically and more than two times per year internationally. Most travel purchases are made online, with a preference for Expedia.com and Travelocity.com as service providers.

Furthermore, 80 percent of our retirees utilize the Retiree Directory, 87 percent read the AFSA Newsletter and 84 percent enjoy reading articles published in the *Foreign Service Journal*. More than 85 percent of our retired community is interested in books, those about history being the most popular, followed by politics and current events. Seven percent of our readers enjoy books on business, and 16 percent prefer books on science.

*Joserelda Boon, Advertising Associate*

## The Department

### Survivor Annuities

Surviving spouses continue to approach AFSA for assistance in securing their survivor annuities. At this difficult time in their lives, surviving spouses should at a minimum expect the department to treat them in a caring and efficient way. Some, however, wait long periods before getting responses to their telephone calls and e-mails, action on their applications, and a basic explanation of what the process is and how long it will take. (For example, some survivors are not told that they should expect that the Treasury Department may take the final annuity check for an annuitant from a joint bank account held with the surviving spouse.)

We recommend that survivors contact the Bureau of Human Resources Service Center to report the death of annuitants and are hopeful that its system for logging in and acting on requests is speeding up the process for survivors. Because the process involves more offices than HRSC, however, we would like to see a seamless process or protocol established by the department to deal with these cases.

Before making any specific recommendations to the department, we would like to hear from you, our members, about your (and your colleagues') experiences with survivor annuities and your recommendations for improving the process.

Please send your comments to [brown@afsa.org](mailto:brown@afsa.org) or to Survivor Annuities, 2101 E Street, NW, Washington D.C. 20037.

### From HRSC

AFSA has been very pleased with the quality of service provided by the Human Resources Service Center in Charleston. The center responds quickly and thoroughly to questions from our members. From time to time, questions and answers come up that may be helpful to our members in general. In this and future newsletters, we will feature some of these, including the following:

Q. Can a survivor, a second spouse, who has a contingent right to a survivor annuity (in the event of the death of the first or former spouse) maintain his or her FEHB enrollment?

A. If a former spouse is entitled to potential survivor benefits, one may elect maximum benefits for a new spouse, even if the former spouse is entitled to the maximum available benefit. The level of survivor benefits one elects for a new spouse, however, must be the same level elected for the previous spouse.

In the event one dies and is survived by both a current and former spouse, the current spouse would be entitled to any portion of the survivor annuity not allotted to the former spouse; or, if none remains, the current spouse would be the contingent survivor in the event the former spouse predeceases her.

In either case, the current spouse would retain eligibility to continue Federal Employees Health Benefits Program coverage, as long as the enrollee had family coverage at the time of his or her death.

**HR Service Center**  
**[HRSC@state.gov](mailto:HRSC@state.gov)**  
**(866) 300-7419**

## Retirement Planning: Spousal Provision

By Tammy Flanagan [National Institute of Transition Planning](#) March 13, 2009

In a [recent column](#), I took on the subject of federal spousal survivor benefits. That prompted more questions from readers about the value of survivor benefits vs. life insurance -- including this one, which I thought I'd address this week:

*Has anyone looked into using a universal life insurance policy versus staying with the federal spousal survivor benefit? Of course, I would maintain the minimum amount of survivor benefit to maintain health coverage for my spouse. There look to be considerable savings with the universal life over the long term, although I sense there are risks that a spouse could outlive the benefits. Any thoughts or references I could look into?*

Courtesy of Wikipedia, here's a [definition of universal life insurance](#):

*Universal life is a type of permanent life insurance based on a cash value. That is, the policy is established with the insurer where premium payments above the cost of insurance are credited to the cash value. The cash value*

*is credited each month with interest, and the policy is debited each month by a cost of insurance charge, and any other policy charges and fees which are drawn from the cash value if no premium payment is made that month.*

I don't pretend to be an insurance expert, but here are some things to consider before deciding to substitute life insurance for the government survivor annuity benefit:

- I can leave my heirs my house, my investments and anything else they can find after I'm gone. Life insurance is not designed for this purpose. I really don't want my adult kids to have any incentive for me and my husband not to be around. With the federal survivor benefit, you pay for it as long as you need it and you can stop paying for it your spouse dies before you.
- What would happen if you didn't live out your normal life expectancy and your spouse outlived you by 20-30 years? Would the insurance provided be able to sustain your spouse for that long? How would they need to invest the proceeds to allow for a long life expectancy and inflation? What if your spouse who receives life insurance benefits can't find a return better than 3 percent? How much

## Spousal Provision Continued

income will he or she be able to withdraw from their investment and still protect the principal?

- What if there is a period of high inflation? (Think 1970s and early 1980s.) The federal survivor annuity is adjusted annually for inflation. The amount of insurance you purchase may not be enough to offset future inflation.
- Is it really cheaper? The cost of the survivor benefit under both the Civil Service Retirement System and the Federal Employees Retirement System reduces your taxable retirement income, and there are no underwriting requirements. Life insurance premiums are paid with after-tax dollars, and you must pass underwriting requirements to get the best rates. The reduction to your retirement to provide the maximum survivor annuity benefit is around 10 percent of your unreduced CSRS or FERS benefit. Let's say that your retirement benefit is \$40,000 per year, so the reduction is \$4,000. If you are paying around 25 percent in taxes, you've lowered the "cost" of this option to \$3,000 per year, since you'll pay \$1,000 less in income tax. This would provide a benefit that is worth \$20,000–\$22,000 per year to your surviving spouse. How much life insurance you will be able to purchase

depends on your age and health. How much life insurance you need will be based on the age and health of your spouse and future inflation rates.

- Your spouse is entitled to your survivor benefit by law, and once selected, it cannot be changed other than by death or divorce. If you and your spouse fall on hard times, the survivor benefit cannot be cashed out. If there is friction between you and your spouse, the survivor benefit cannot be canceled and it can become part of a divorce settlement.
- The income of the spousal survivor benefit is for life. It is not subject to investment fluctuations and poor investment decisions. It is adjusted annually for inflation. These are all characteristics that are hard to duplicate using a fixed amount of life insurance.

I think the fundamental question in this debate is how much risk your spouse is willing to tolerate. Ultimately it should be up to them to decide whether to accept an alternative to the spousal survivor benefit to which they are entitled.

I suppose I sound a little biased, but I wanted to balance the bias that an insurance agent may have when their commission is on the line. After all, I don't receive

## Spousal Provision Continued

any money if you provide your spouse with a government survivor annuity.

**Tammy Flanagan** is the senior benefits director for the [National Institute of Transition Planning Inc.](#), which conducts federal retirement planning workshops and seminars. NIPT very kindly gave permission to

The listing of job opportunities from the FSI Job Transition Program is now back on line on the AFSA Retiree Web page at [www.afsa.org/retiree/jobOpportunities.cfm](http://www.afsa.org/retiree/jobOpportunities.cfm).

## Medicare Advantage

By 2014 Medicare Advantage plans – private health plans within the Medicare system – must spend 85 percent of taxpayer money on health benefits, rather than on administrative costs and profits.

Medicare Advantage plans cost taxpayers about \$1,200 more a year for each participant than for those in the standard Medicare plan.

Although the costs of Medicare Advantage plans will become more in line with that of the Original Medicare plan, there will be no cuts to guaranteed Medicare benefits.

Medicare Advantage plans will continue to be required to provide coverage that is at least as good as Original Medicare.