



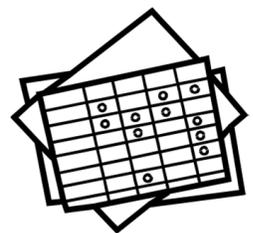
GOVERNMENT SHUTDOWN

How a Shutdown May Impact You and Your Agency

What should you know about furloughs?

A furlough places you into a temporary non-duty, non-pay status typically because of lack of work, or in this case, lack of funds. It is only temporary, but you won't be able to perform your job duties while on furlough, and as a result you won't be paid for that time.

There are actually two types of furloughs – shutdown (or emergency) furloughs which occur when an agency loses all of its funding or if its mission is abandoned, and administrative furloughs. The type of furlough that we're talking about is an administrative furlough, which is a planned event where the agency has sufficient time to develop their plan and notify its employees.



How will your agency be affected?

Each agency is given the authority to make its own decisions as to how to accomplish its mission and meet the needs of its customers or constituents within the budget that it has been provided each year. In this case, because the latest budget has been reduced, the agency will need to make some tough choices as to how best to still accomplish its objectives.

If furloughs are necessary, the agency will have to answer some complex questions in order to prepare its plan. These questions will include:

- Will it be necessary to furlough employees? *(Some agencies have said that it will be possible for them to meet their budget targets without furloughing employees.)*
- If furloughs are required, which employees should be furloughed?
- Should all employees in the agency be subject to furlough?
- Who is essential? Are there employees whose absence would cause a tremendous burden to the agency or its customers?
- How long must employees be furloughed to accomplish the required cuts?
- When should furloughs begin?
- What is the best way to accomplish this? *(Should an agency furlough everyone at one time and shut down the entire agency for a day, or a week? Or will 'rolling' or 'discontinuous furloughs' be more effective?)*
- How will collective bargaining agreements be affected? How will the agency negotiate furloughs with their unions? *(A large number of Federal workers are subject to collective bargaining.)*

What must your agency do?

They'll start by developing a plan to meet the required budget targets. The plan may be difficult to develop, but it will be necessary for the agency and department heads to formulate a strategy to accomplish the task they've been given.



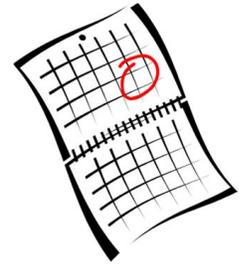
As the plan is developed, your agency will identify employees who will be affected by furloughs. Their goal will likely be to minimize the effect of these cuts on their workforce. In fact, The Office of Personnel Management has requirements that the agency must follow to assist in minimizing the burden on you.

OPM requires the agency to notify you in advance of placing you into a furlough status. A 30-day written notice is required for employees who will be furloughed for 22 workdays or less, under the Leave Without Pay rules, and a 60-day advance notice is required for employees who will be furloughed for more than 22 workdays in the year. This applies under the RIF (Reduction in Force) rules.

What choices do agencies have in implementing furloughs?

We've already said that agencies have discretion in developing their own plan to meet their budget targets. So, if furloughs are necessary, agencies also have discretion as to how to furlough employees. They will likely use one, or possibly several, of four methods.

1. Firstly, employees could be furloughed for one day (or possibly multiple days) per pay period for a finite period of time. Many agencies have indicated that this choice is preferred for them as it causes a smaller disruption in services, and has less negative effect on the employee and their financial needs.
2. A second option may be to designate a number of furlough hours that the employee must take. This creates more goodwill with employees by giving them the flexibility to choose when to take furlough time. However, it could be more disruptive to an agency to allow this choice to its employees. Agencies would certainly want to approve requests in advance to make certain that they have an adequate workforce on any given day to service their customers.
3. A third option would be to designate specific dates as furlough days. The employee could be given the opportunity to choose from a pool of dates, or the agency could designate that all or certain groups of employees would be required to be furloughed on those dates.
4. And finally, agencies could allow employees to select their own furlough time off. This is certainly the most flexible for the employee, but could be more difficult for the agency to manage and administer. It could also place the agency in a difficult position if certain employees continue to defer their furlough time. The agency may be forced to furlough the employee for an extended time before the end of the fiscal year in order to meet its budget targets.



What about VERAs and VSIPs?

When changes in the agency's workforce are necessary, they typically prefer not to force employees into a Discontinued Service Retirement or DSR situation. If possible, an agency will offer their employees incentive options to gain the needed reduction in workforce size. These incentives are often authorized by OPM as Voluntary Early Retirement Authority or Voluntary Separation Incentive Payment programs – commonly known as VERAs or VSIPs.

Any agencies that have these OPM-approved programs already in place may use them to encourage workers who may be eligible for them to retire early to avoid furloughs. Employees who are offered these incentives in 2018 may certainly want to look closely at them. A financial adviser could be valuable in helping you to evaluate your options and make a decision.

What should you know about furloughs in general?

Firstly, during a furlough you are not separated from service. You are still employed, so you're not entitled to severance pay. You haven't been 'severed' from employment.

You also cannot volunteer to perform your duties for your agency during furlough time. Some employees may want to try to work while on furlough to prevent from getting behind in their work, or simply to be generous to their agency or its customers. This is not permitted during furlough time.

You may be eligible for unemployment compensation, but the rules to receive unemployment vary from state to state. Some states require a waiting period of one week or more before applying for unemployment benefits. If furloughs are rolling or discontinuous– for example, you are furloughed for one day per pay period – you may not be able to apply for unemployment. Some may also feel that that applying is morally wrong, since you are still employed – just not working at the moment.

You should also know that you may be able to secure another job during furlough time depending on your agency’s rules on outside employment. Again, this may or may not be practical depending on how you’re furloughed and for what period of time. Be sure to check with your agency to determine if this is allowed for you.

How is your leave affected?

Furlough time is treated as regular ‘Leave Without Pay’ for purposes of leave accrual and benefits.

For annual leave accrual, your service computation date is only adjusted for an excess aggregate of six months or more of non-pay status in a calendar year. So periods of ‘Leave Without Pay’ up to six months in a calendar year will be credited to you for leave purposes, and counted as creditable service for retirement plan purposes for the CSRS and FERS pension programs as well.

You may not substitute paid leave or other forms of paid time off time for furlough time, but it is permissible to take ‘Leave Without Pay’ under the Family and Medical Leave Act during furlough time.

What about Federal holidays?

Your furlough time may include holidays, or we could say that a holiday may occur while you are furloughed. If you have a furlough day on the last workday before **or** the first workday after a holiday, but not on both days, then you will be paid for the holiday. For example, if you are furloughed on July 3rd and 4th but scheduled to return to work on July 5th, you will be paid for the July 4th holiday.

But, if both the last workday before **and** the first workday after are included in the furlough, then you **will not be paid** for the holiday. In my previous example, if your furlough time included both July 3rd and July 5th with you returning to work on Monday, the 8th, then you will not be paid for the July 4th holiday.



The Office of Personnel Management has instructed agencies that it isn’t proper for the agency to furlough you solely on a holiday in order to save payroll, and that an agency should attempt to coordinate furloughs with paid holidays to minimize the effects on its employees.

The most important questions that employees are asking with regards furloughs have to do with the effect of furloughs on their employee benefits. So, let’s take a look at the potential effects on your pension, Thrift Savings Plan, Social Security (for those FERS and CSRS-Offset employees who may become eligible for benefits), and also on your life and health insurance coverages, disability benefits, and long term care plan.

Will my CSRS or FERS pension be affected?

Most employees will see little effect on their pension plan as a result of furloughs.

Coverage continues under both CSRS and FERS at no cost to you while you're in a non-pay status. This means that your agency will continue to contribute for you if you should be furloughed for an entire pay period, but your contributions will not be required during furlough time. However, it's expected that most employees will be furloughed only one or two days per pay period. As a result, retirement deductions for those employees will be adjusted in proportion to basic pay. So when a non-pay status occurs during only a portion of a pay period, your retirement deductions will still be withheld from your pay check, and though the percentage remains the same, the dollar amount will be smaller.



As you know, the formula that's used to determine your pension at retirement consists of your creditable civilian service and 'High-3' average pay. Creditable service should not be affected by a furlough. As mentioned above, it's possible for you to be in a 'Leave Without Pay' status for up to six months in a calendar year and still receive credit for that time.

Your High'3' average pay should also not be affected. The 'high-3' average salary that's used to compute your annuity is the largest annual rate resulting from averaging your rates of basic pay over any period of three consecutive years of creditable civilian service, with each rate weighted by the length of time it was in effect. So, although being furloughed will reduce the amount of pay that you will receive, it doesn't change the basic rate of pay that OPM would use when determining your 'high-3' average pay. The loss of pay during a non-pay status period would have no effect on the basic pay rate that is ultimately used in the calculation.

Will a furlough have any affect my Thrift Savings Plan?

You may continue to contribute to the Thrift Savings Plan (TSP) as long as you have compensation to defer during a pay period. Remember, the TSP is a salary deferral type of plan so you must have pay that you can defer. If you don't have any pay during a pay period, you won't be able to make a contribution.

If you've chosen a percentage amount of pay as your contribution, the actual dollar amount contributed to your TSP will be less because your pay will be lower during a pay period when you are on furlough.

If a dollar amount is chosen as your contribution, you'll need to have sufficient pay to contribute during a pay period. If you don't, only a portion of your pay, or possibly no contribution will be taken from your pay and made to your TSP account. You should also know that deductions for the TSP fall further down the list in the 'order of precedence' that is used when determining which deductions are taken from your pay. (*We'll talk more about this in a moment.*)

Interfund transfers can still be made during your furlough time. This means that you may still move existing money in your plan from one investment account to another while on furlough.

Contribution allocation changes will take effect when you return to pay status. So, if you would like to change the way that your contributions are being invested, you'll need to make certain that you are currently in pay status in order to be able to change the way your contributions are allocated to your account.

And finally, In-Service Withdrawals, both age-based and hardship-based, may still be requested during a furlough. Of course, age-based withdrawals can be made only one time by an employee who is age 59½ or older. Funds taken out of the TSP will be taxable to you in the year they're received, if not placed into another tax-deferred account.

A hardship withdrawal can be taken if you can show a financial hardship. This could be helpful to someone during a furlough who may be in need of cash, but be careful. After taking a hardship withdrawal, you must wait six months after the withdrawal before you may re-start your contributions to the Thrift Savings Plan.

While you are on furlough, you may not request a new loan from the TSP. Loans are secured by having payments made from the employee's pay check. So, if you're not receiving any pay, the loan cannot be secured. You simply need to be in pay status to take a loan.

If you have an existing loan, you're allowed to miss loan payments for up to one year of non-pay status. The interest on your loan will continue to accrue --- it isn't forgiven just because you aren't currently making payments.

You can make loan payments while on furlough if you desire by sending a personal check or money order directly to the TSP along with a loan payment coupon (*Form TSP-26*). This will keep your loan current.

You may know that TSP loans come in two types – general purpose loans and residential loans. General purpose loans are repayable in 1 – 5 years. Residential loans are available for up to 30 years. If you miss payments, your payments may be adjusted and will increase if the current payment amount you are making won't pay off the loan in the maximum loan period.

And, as you may have also heard, if you default on a loan, the amount that has not yet been repaid is considered a taxable distribution to you. You'll pay taxes at your current rate, and could also owe a 10% early withdrawal penalty if you are under age 59½.

Will a furlough affect my Social Security?

If you're subject to Social Security (for the most part that includes FERS and CSRS-Offset employees), you'll continue to pay Social Security tax or FICA from your bi-weekly pay check, if you have compensation during the pay period. Deductions will be in proportion to your basic pay which would likely be lower if the pay period includes furlough time.



You may wish to adjust your withholding by submitting a new W-4 form to your agency, although it will likely not be necessary. Adjusting your withholding may allow you to keep a bit more pay now, but may cause you to have to make a tax payment when filing your return.

Although your pay will be lower, it's unlikely that furlough time would have a significant effect on Social Security retirement earnings, future Social Security retirement payments, or Social Security disability benefit payments for most Federal employees.

How will a furlough affect my Federal Employees Group Life Insurance (FGLI)?

If your furlough time occurs during only a part of a pay period, then you are required to pay the full premium amounts that are owed for your basic life insurance coverage as well as any optional coverages that you may have for yourself or your family. These amounts will be deducted from your pay.

Neither you nor your agency incurs any debt during your furlough. So you do not owe premium payments if the furlough lasted during the entire pay period, and when you return, you will not owe any missed payments.

If your pay is insufficient to pay your portion of the premiums, then the 'Leave Without Pay' Insufficient Pay Rules apply. *(We'll talk more about what that means in just a moment.)*

Will a furlough affect my Federal Employees Health Benefits (FEHB)?



Your health insurance coverage also continues while you are on furlough. You may continue to file claims for yourself and covered family members. Your agency will continue to pay its share of your premiums. If your pay during a pay period becomes insufficient to pay the FEHB premiums due to your furlough time, the Leave Without Pay Insufficient Pay Rules apply. If you choose to remain covered, your share of the health premium will accumulate and be withheld from pay upon your pay becoming 'sufficient' to cover the premiums.

What are the Insufficient Pay Rules that you keep mentioning?

We've mentioned the Insufficient Pay Rules several times, so let's look briefly at what they are. When your gross pay during a pay period is not sufficient to permit all of the deductions that are expected to be taken from your pay check, an 'order of precedence' is used to determine which amounts will be deducted before other amounts can be taken. Here's a listing of the order in which deductions are taken from your pay check:

1. Retirement deductions for CSRS or FERS
2. Social Security tax (OASDI)
3. Medicare tax
4. Federal Income tax
5. Basic health insurance premium
6. Basic life insurance premium
7. State income tax
8. Local income tax
9. Collection of debts owed to the US government
10. Court-ordered collections/debt
11. Optional benefits, . . . etc.

The entire list of deductions isn't included here, but you can see from this abbreviated list that retirement deductions for your CSRS or FERS plans are taken first, followed by Social Security, Medicare, and Federal income tax withholding. After those amounts are deducted, health and life insurance premiums follow. You may notice that deductions for your TSP didn't even make it into the top ten items. They fall much further down the list actually. And, items like professional or union dues, charities, and military service deposits show up at the bottom in order of precedence.

If you'd like more information about the Insufficient Pay Rules, the letter outlining these rules that was sent to Human Resources Directors and Agency Payroll Offices in July of 2008 is available on the Chief Human Capital Officers Council web site at:

www.chcoc.gov/transmittals/TransmittalDetails.aspx?TransmittalID=1477

You'll find the entire 'order of precedence' located there along with additional information which standardizes deductions when gross pay isn't sufficient to permit all deductions from an employee's paycheck.

Will a furlough affect my Federal Employees Vision and Dental Insurance Program (FEDVIP)?

If you've enrolled for vision and dental coverage under the Federal Employees Dental and Vision Insurance Program (FEDVIP) your coverage will continue while you are on furlough status. Of course you can continue to file claims, and your eligible claims will be processed and paid. However, if BENEFEDS cannot collect the premium from your pay, either because you had no pay during the pay period or because your pay was not sufficient to pay the premium amount, then they'll collect two premiums during the next pay period.

If your furlough time continues so that the premiums may not be collected for more than two pay periods, BENEFEDS will mail a direct bill to you. You'll need to pay the premiums directly on a timely basis in order to continue your coverage.

How will a furlough affect my Flexible Spending Account?

Your FSAFEDS coverage for your Flexible Spending Account (FSA) continues during your furlough, and any allotments made from your pay will be contributed to your account as long as there is sufficient pay during a pay period.



Eligible health care expenses will not be reimbursed from your health care FSA until you return to a pay status, and the allotments will be recalculated over the remaining pay periods in order to match your original annual election amount.

Eligible dependent care expenses may be reimbursed during non-pay status, up to whatever balance is in the dependent care FSA as long as the expenses allow you or your spouse to work, look for work, or attend school full-time. Once dependent care allotments are successfully restarted, any remaining allotments would be recalculated over the remaining pay periods to match your annual election amount.

What effect will a furlough have on disability income?

When it comes to disability, there are generally three potential sources of payments for an individual who may be temporarily or permanently injured.

The first potential source of income is not available to employees placed on furlough. Worker's Compensation payments authorized under the Federal Employees Compensation Act (FECA) require that the employee is injured while performing his duties on the job. Of course, during furlough time, you are in a non-duty status, so you are not on the job, and therefore unable to present a claim for worker's compensation.



Social Security disability benefits can be requested if needed while furloughed. Of course, you must have adequate credits of coverage and meet Social Security's strict definition of disability in order to receive a benefit.

Both the CSRS and FERS pension programs offer a disability benefit to employees who meet their requirements. As mentioned earlier, there are really no effects on your pension benefits due to furlough, and employees who are in a situation where receiving a disability pension benefit is appropriate should make a claim.

Will a furlough have any effect on the Federal Long Term Care Insurance Program?

For employees who have purchased coverage under the Federal Long Term Care Insurance Program (FLTCIP), your coverage will continue while on furlough. You may continue to file claims while in non-pay status if you have a long-term care issue. Your eligible claims will continue to be processed and paid.

However, you should know that your coverage terminates if premiums are not paid. If LTCFEDS doesn't receive premiums for two pay periods, they'll simply adjust future premiums, increasing them by no more than \$50 per pay period. If three consecutive periods of premiums are missed, LTCFEDS will bill you directly for the premiums. If you don't pay within a 30-day grace period, then your coverage will be terminated retroactive to the last pay period in which a premium payment was made.



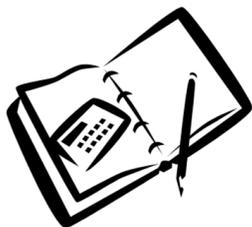
What else can I personally do to protect my financial health?

Now that we've discussed the specific effects of furloughs on your benefits, here are some additional suggestions to assist you during this challenging time. In order to remain financially healthy, we recommend four strategies that may help you.

1. Review your current budget.

People at lower income levels tend to watch how they spend their dollars more closely. They often have a budget and find that they must stick to it. Those who enjoy higher incomes often have dollars which fall through the cracks which can make reviewing a budget a bit harder.

You may want to sit down and take a closer look at both your fixed expenses (like mortgage payments, car payments, cable bill) and also look back over several months of variable expenses (groceries, gas, entertainment) to get a better idea of your monthly expenditures.



Look for unnecessary expenditures. Maybe you can get rid of HBO or Starz to lower your cable bill. You may also need to eat out less or postpone a planned vacation.

Take a look at how your pay may change and discuss which items if any will need to be lessened or eliminated.

Get your entire family on board with monitoring their spending. If you expect your Leave Without Pay to have a significant effect on you and your family, it's important that everyone

itches in to help, and understands that it is only temporary. This is a time when lessons on spending and budgeting can be valuable to helping your children learn to manage their own finances as they get older.

You may need to access your emergency fund, if you have one. Financial advisers typically recommend having enough money on hand in a money market fund to cover several months of expenses for just these types of situations. If you don't have an emergency account, you may want to start today to set aside funds if you're able. Having an emergency fund can provide you with peace of mind and help you through challenging financial times.

2. Look for other ways to save money.

Consider refinancing your home. Reducing your mortgage interest rate by as little as 1% on a 30-year mortgage of \$250,000, could save you approximately \$200 per month. Of course, closing costs and other fees will likely be a factor, so make sure to get all of the facts before making a decision.

It's always important to keep credit card debt in check, but when looking for ways to save money, reducing credit card debt, and the resulting payments and interest that you're paying, may also help to conserve cash.

Obtain insurance quotes to potentially lower your premiums. It's important to maintain insurance coverages to avoid the possibility that a large loss could have a devastating financial effect on you or your family, but you may be able to lower your premiums and save money by visiting with your agent, or by obtaining quotes from competing companies. Be sure to investigate your options thoroughly before making a change.



During difficult financial times you may also need to reduce your currently savings to college funds, IRAs, and even your Thrift Savings Plan. A financial adviser could help you with making these choices, if necessary, by showing you to the effects on your goals and the possible tax consequences as well.

3. Consider additional employment

Depending on how your furlough time is arranged, you may be able to obtain part-time work if necessary for your financial situation. Of course, you should begin by confirming with your agency that this is allowed based upon your current position and responsibilities.

Consider developing a home-based business. Many individuals and families have found it rewarding to work together to capitalize on a hobby or talent.

Search sites such as Craigslist and job boards for companies in need of short-term assistance on jobs or projects that match with your skills.

And finally, ask neighbors and local community groups if they are in need of your skills.

4. Use furlough time wisely

This last suggestion is the most important. Regardless of what you do, use your furlough time wisely. You can accomplish tasks for which you typically find little time. Paint a room, work in the garden. Why not use your time to get closer to family and friends?

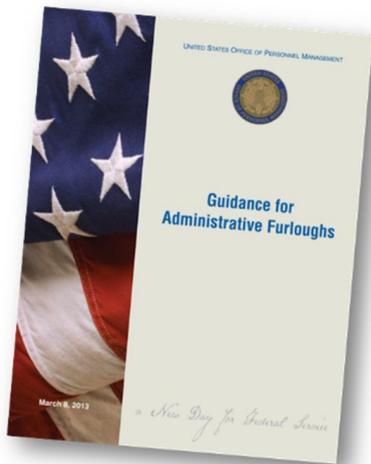
Learn a new skill that could be valuable to you in your career. Try a new hobby that interests you, or take a class to expand your knowledge.

You may even want to give back to your community by volunteering at a charity or event.

Above all, remain positive. Do your best to keep your spirits up by considering these ideas and many more.



What if you have more questions?



Check with your agency first. They may be the best source of information and may be receiving questions from employees in a similar situation to yours. Most of the individual benefits web sites have added information on how their programs are affected by furloughs. For more information about the effects on your TSP, flexible spending account, long-term care insurance, or other benefits, search their sites using the terms 'Leave Without Pay' or 'furloughs'.

OPM is also providing a downloadable PDF titled 'Guidance on Administrative Furloughs'. To obtain it simply go to OPM.gov, click the Policy tab near the top of the screen. Search for the Pay & Leave section down the left side bar. Click on this section and choose Furlough Guidance from the drop down menu. Click on 'administrative furloughs' to be taken to the page containing the

guide. OPM updates this guide with new information in a question and answer format. The most recent edition (as of Dec. 28th, 2018) was dated March, 2017.

To learn more about Federal employee benefits, or to schedule a benefits briefing for your agency, please contact:

Phone (720) 432-3331

Email: info@febadvocates.com

