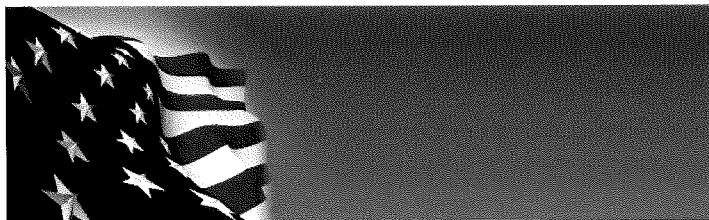


Is this email not displaying correctly?
[View it in your browser.](#)



CYPEN & CYPEN NEWSLETTER FOR FEBRUARY 12, 2015

Copyright, 1996-2015, all rights reserved

Stephen H. Cypen, Esq., Editor

Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. FLORIDA DIVISION OF RETIREMENT ACTUARIAL SUMMARY FACT SHEETS: Florida Department of Management Services, Division of Retirement, monitors the state's local government pension plans for actuarially sound funding under Part VII of Chapter 112, Florida Statutes. An actuarial summary fact sheet is available for each local government pension plan that the Division monitors. The fact sheets summarize basic information about each plan and compare that information to the average of Florida's other local government pension plans. This comparison helps to provide a frame of reference for the plan's performance relative to other plans. The fact sheets are prepared in accordance with Section 112.665(1)(e), Florida Statutes, and include the following information:

- The plan's actuarial status
- The most current actuarial and benefit data
- The minimum funding requirements as a percentage of pay
- A five-year history of funded ratios
- A comparison to the average of other Florida local government pension plans
- A brief explanation of each element presented to maximize the transparency of the local government plan

The Division monitors about 490 local government plans, as of September 30, 2014. The list contains links to the appropriate 1-page fact sheet for the corresponding plan. If you have questions about the fact sheets, contact the local retirement section, toll free at 877.738.5850.488.2784 in Tallahassee local calling area, or email local_ret@dms.myflorida.com.

2. NATIONAL COUNCIL ON TEACHER RETIREMENT BLASTS NATIONAL COUNCIL ON TEACHER QUALITY REPORT: Apparently there are two organizations with very similar names: National Council on Teacher Retirement (NCTR), which supports retirement security for American teachers, and the National Council on Teacher Quality (NCTQ). We recently reviewed a report from NCTQ claiming that 70 cents on every dollar contributed to state teacher pension systems pays for debt, not retirement benefits, and giving states an average overall grade of C- for teacher pension policies (See C & C Newsletter for February 5, 2014, Item 3). The report challenges the claims of pension boards and groups about the cost-effectiveness, fairness and flexibility of the traditional defined benefit pension plans still in place in 38 states. According to NCTR, states are making it harder for teachers to receive benefits by increasing vesting periods, and, as a result, are cheating teachers out of the opportunity to build a retirement nest egg. NCTQ, which receives more than \$800,000 in grants from the Laura and John Arnold Foundation, also repeats the recent claims of other Arnold-funded studies that fewer than half of teachers will qualify for retirement benefits. NCTR would like to see how many more times this bogus claim needs to be refuted before these so-called experts stop spreading it. The facts are in most cases according to NCTR, most teachers participating in public DB plans are expected to vest and a large majority of those who vest are expected to retire from the plan. Further, there are many ways in which a retired teacher can receive a benefit from a pension plan without having an uninterrupted career or reaching normal retirement age, which seems to be the only standard NCTQ claims to exist. These ways include things as receiving a disability benefit; qualifying for a vested deferred benefit; returning to employment with the same employer, thus enabling the returning teacher to re-start accrual of retirement service credit; benefitting from reciprocity agreements between plans, usually within the same state, for those who terminate and are later employed by a different employer. NCTR is also concerned with the NCTQ claim that states, on average, are paying off ever-increasing pension debt. A closer reading of the NCTQ report indicates that its claim apparently concerns contributions only by employers, while a broader statement significantly overstates the portion of the total contributions used to amortize plans' unfunded actuarial accrued liabilities. Actually, the vast majority of teacher retirement systems require member contributions, and if these are included as payments toward the normal cost, as NCTQ appears to acknowledge in footnote 1, then it is very likely that the portion of total contributions going to pay down the UAAL is much smaller than 70 cents on the dollar. Apparently the NCTQ study was based on 2014 data only, constituting a narrow snap-shot in time. In the late 1990's, when almost all pension plans were very close to being fully funded, the percentage of employer contributions devoted to paying down the UAAL would have been much less than the 70%. NCTR also challenges the claim that public sector defined benefit plans were somehow cheating teachers out of their future retirement security. There are no data that support the idea that younger employees who devote only a few years to teaching

roll-over any vested monies into another tax-preferred retirement plan when they leave. In fact, research suggests the opposite: many if not all of these former teachers cash out their retirement savings. Indeed, younger workers ages 20 to 39 have the highest cash-out rates from plans, with about 40% taking money with them when they switch jobs. Indeed, this leakage problem is the unspoken danger in so-called portability discussions. The fact is that a DB model provides something much more important, namely, benefit portability. Once vested -- and about 60% of teacher plans have vesting periods of 5 years or less -- contributions can remain in the plan and a retirement benefit, typically of 60% of final salary, cannot be outlived, will be available to the employees at retirement no matter how many job changes they may have after leaving their sponsor's employment. See item 13 below.

3. DC PLAN ASSETS COME WITH HUGE RISKS: The rest of the world is following the U.S. lead in embracing the defined contribution or retirement savings plans, with America's employer-sponsored plans taking a huge share of global assets. And with those huge assets come huge risks, according to ebnbenefitnews.com. About 47% of retirement plan assets within the 16 largest international pension markets (held in DC plans). A significant component of that growth, however, is attributable to a rapid increase in DC assets held in the U.S. The U.S. share of the \$17 trillion in P16 DC total is \$13 trillion, or 76% of the total. U.S. retirement plan dollars grew by 9% last year, versus 6% for the P16. Total retirement plan assets within the 16 top pension markets (which account for an estimated 85% of the total) stand at about \$36 trillion. DC plan assets in the U.S. now stand at 58% of the combined DB/DC total, up from 47% a decade ago. Global momentum in favor of the DC model will have consequences. This shift brings a transfer of risk and new tension to the balance between ownership and control, which will affect governments and pension industries around the world. The overall growth rate for retirement plan assets in the P16 cooled off a bit in 2014, to 6% from 10% in 2013. A higher growth rate would be required within the DB sector to strengthen those plans. Despite improvement, so-called DB plans are still in very weak funded positions. However, the U.S. pension plans are in a better position, given the contribution flexibility. U.S. pension plans also typically have significant flexibility when it comes to where to invest. Yet the domestic bias for equity investments is a proportion of total equity investments in domestic corporations -- is highest in the U.S. Approximately 67% of pension dollars invested in the U.S. was invested in U.S.-based companies, a percentage that has risen over the past three years. During the same time, the P16 equity bias declined, to 43% last year, down from 65% in 2008. This situation may be explained in part by the fact that the aggregate capitalization of publicly held companies is significantly larger than that within other P16 countries, implying that non-U.S. pensions seeking a significant allocation to substantial corporations have had little choice but to load up on U.S.-based companies. Another investment trend is the increasing allocation to alternative assets -- generally real estate, hedge funds, private equity and commodities. That allocation rose from 5% in 2013 to 25% last year. U.S. pensions have the greatest appetite for alternatives, with a 29% allocation last year. Aside from the U.S., the P16 countries are Australia, Brazil, Canada, France, Germany, Hong Kong, Ireland, Japan, Malaysia, Mexico, the Netherlands, South Africa, South Korea, Switzerland, and the United Kingdom.

4. CALLAN PERIODIC TABLE OF INVESTMENT RETURNS 1995-2014: Callan's Periodic Table of Investment Returns depicts annual performance for ten asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time, unless you are color-blind. Callan describes the well-known industry-standard market indexes used as proxies for each asset class.

S&P 500 GROWTH	14.89%
S&P 500	13.69%
S&P 500 VALUE	12.36%
BARCLAYS AGG	5.97%
RUSSELL 2000 GROWTH	5.60%
RUSSELL 2000	4.89%
RUSSELL 2000 VALUE	4.22%
BARCLAYS CORP HIGH YIELD	2.45%
MSCI EMERGING MARKETS	-1.82%
MSCI EAFE	-4.90%

- Barclays Aggregate Bond Index (formerly Lehman Brothers Aggregate Bond Index), includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.
- Barclays Corporate High Yield Bond Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds.
- MSCI EAFE is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets in Europe, Australasia, and the Far East.
- MSCI Emerging Markets is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.
- Russell 2000 measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.
- Russell 2000 Value measures the performance of the growth and value styles of investing in small cap U.S. stocks.
- Russell 2000 Growth contains those securities with a greater-than-average-growth orientation.

S&P 500 measures the performance of large capitalization of U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks traded on the NYSE, AMEX, and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.

- S&P 500 Growth measures performance of the growth and value styles of investing in large cap U.S. stocks.
- S&P 500 Value contains those S&P 500 securities with a greater-than-average value orientation.

5. CHOOSING A TAX PREPARER: IRS has provided a few tips when using a tax preparer:

- Check to be sure the preparer has an IRS Preparer Tax Identification Number (PTIN).

- Ask the tax preparer if he has a professional credential (enrolled agent, certified public accountant, or attorney), belongs to a professional organization or attended continuing education classes.
- Check on the service fee upfront. Avoid preparers who base their fee on a percentage of your refund or those who say they can get refunds than others can.
- Always make sure any refund due is sent to you or deposited into your bank account.
- Make sure your preparer offers IRS e-file, and ask that your return be submitted to IRS electronically.
- Make sure the preparer will be available in case questions come up about your tax return.
- Provide records and receipts.
- Never sign a blank return.
- Review your return before signing.
- Ensure the preparer signs and includes his PTIN. Paid preparers must sign returns and include their PTIN as required by law.
- Report abusive tax preparers to the IRS.

IR-2015-20 (February 4, 2015).

6. STATES WITH THE BEST 401(K) PLANS: Somebody with way too much time on his hands reviewed more than half a million 401(k) throughout the country to determine which states had the highest amount of over-performing plans. Rankings are based on rate of participation and employee contributions:

- Washington, D.C. -- Percent of plans that significantly over performed: 10.23%.
- Alaska -- Percent of plans that significantly over performed: 6.99%.
- Wyoming -- Percent of plans that significantly over performed: 6.63%.
- Connecticut -- Percent of plans that significantly over performed: 6.19%.
- Massachusetts -- Percent of plans that significantly over performed: 5.95%.
- Virginia -- Percent of plans that significantly over performed: 5.66%.
- Maryland -- Percent of plans that significantly over performed: 5.65%.
- Hawaii -- Percent of plans that significantly over performed: 5.58%.
- Colorado -- Percent of plans that significantly over performed: 5.57%.
- New York -- Percent of plans that significantly over performed: 5.50%.

7. STATES WITH THE WORST 401(k) PLANS: Somebody also with way too much time on his hands reviewed more than half a million plans throughout the country to determine which states had the highest amount of under-performing plans. Rankings are based on rate of participation and employee contributions:

- Arizona -- Percent of plans that significantly underperformed: 16.17%.
- Nevada -- Percent of plans that significantly underperformed: 15.19%.
- Utah -- Percent of plans that significantly underperformed: 15.17%.
- Florida -- Percent of plans that significantly underperformed: 14.42%.
- Tennessee -- Percent of plans that significantly underperformed: 13.37%.
- South Carolina -- Percent of plans that significantly underperformed: 13.18%.
- Georgia -- Percent of plans that significantly underperformed: 13.12%.
- Texas -- Percent of plans that significantly underperformed: 13.11%.
- Mississippi -- Percent of plans that significantly underperformed: 12.88%.
- Alabama -- Percent of plans that significantly underperformed: 12.81%.

8. DILLERISMS: Tranquilizers work only if you follow the advice on the bottle: Keep Away From Children. Phyllis Diller

9. YOU KNOW YOU ARE LIVING IN 2015 when...: You pull up in your own driveway and use your cell phone to see if anyone is home you carry in the groceries.

10. TODAY IN HISTORY: In 1809, Abraham Lincoln was born.

11. KEEP THOSE CARDS AND LETTERS COMING: Several readers regularly supply us with suggestions or tips for newsletter items. feel free to send us or point us to matters you think would be of interest to our readers. Subject to editorial discretion, we may print then assured that we will not publish any names as referring sources.

12. PLEASE SHARE OUR NEWSLETTER: Our newsletter readership is not limited to the number of people who choose to enter subscription. Many pension board administrators provide hard copies in their meeting agenda. Other administrators forward the new electronically to trustees. In any event, please tell those you feel may be interested that they can subscribe to their own free copy newsletter at <http://www.cypen.com/subscribe.htm>.

13. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.

777 Arthur Godfrey Road
Miami Beach, Florida 33140