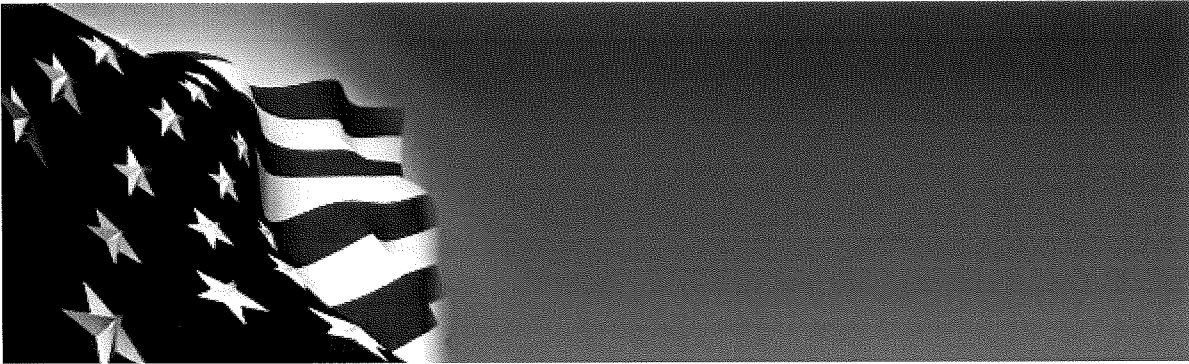


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CYPEN & CYPEN NEWSLETTER for AUGUST 13, 2015

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Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. 2015 FLORIDA LEGISLATION WEBINARS TO BE RESCHEDULED: The Department of Management Services' Division of Retirement has cancelled the three one-hour webinars to discuss the legislative changes contained in Chapter 2015-039, Laws of Florida (SB 172) and Chapter 2015-157, Laws of Florida (HB 1309), due to the large volume of responses and excellent questions, and to allow adequate time to evaluate the issues. Alternate dates have not been established for the webinars at this time, but notification of the rescheduled dates will be sent out at the earliest opportunity.

2. ASSET OWNERS DEMAND INFO ON CYBERSECURITY PROCESSES: Insufficient cybersecurity is becoming a deal breaker for firms that provide investment services to defined benefit and defined contribution plans according to pionline.com. An increasing number of requests for proposals now require firms to detail their cybersecurity procedures, the result of heightened concerns of the

potential for data breaches and hackers. There are differences in cybersecurity procedures among providers, but now this has become an important part of everyone's due diligence. What once was considered only best practice among asset owners, with due diligence focusing on only the largest money managers, is now a market practice, where cybersecurity information is required by all plans from all providers. It is no longer a question of whether (a provider) has cybersecurity procedures or does not, the issue is how extensive they are. David Holmgren, chief investment officer of Hartford HealthCare, Hartford, Conn said cybersecurity is becoming a bigger issue (and) is a huge component of all our RFPs." As a health-care provider, Hartford HealthCare has a heightened sensitivity to data security and confidentiality rules, he noted. "We apply this scrutiny on cybersecurity to all our contracts, including those providers for pension plans," Mr. Holmgren said. Hartford HealthCare has \$3 billion in pension, insurance and endowment assets. Due diligence is crucial before asset owners even get to the RFP stage, said William Atwood, executive director of the \$13.1 billion Illinois State Board of Investment, Chicago. One of the things we rely on in cybersecurity is our early due-diligence process in seeking providers. We want providers with a strong technology base who understand and are sensitive to the need for data security. We are seeing more and more security issues addressed in RFPs," said Michael Pillion, Philadelphia-based partner at Morgan, Lewis & Bockus LLP. Mr. Pillion said there also are more negotiations on adding data security terms. There is more attention to detail (in data security). It is something that is developing and will continue to. The potential for internal breaches also should concern asset owners, said Marla J. Kreindler, partner at Morgan, Lewis in Chicago. Among the issues Ms. Kreindler cited: hackers accessing trust accounts and creating fraudulent billing accounts to draw assets; the use of passwords by multiple plan participants; and fraudulent e-mails that try and glean information from plan employees or participants. Ultimately (data security) is still the plan sponsor's responsibility. They cannot just contract out responsibility for data breaches to third parties. ... It is not just about the contract. It is who the plan sponsor is choosing as a service provider. What due diligence has the plan sponsor done on the provider on important data questions, like who manages their server? Is it the provider or a third party? And is the server or the provider in another country? Those need to be known by the plan sponsor in the

RFP process and then details about this have to be addressed and locked down in the contract. Asset owners' concerns over providers' data security appear to be well founded. According to a report released last week by the Securities and Exchange Commission, 74% of money managers and other registered investment advisers surveyed said they have been the subject of a cyber-related incident directly or through their external providers. Also, while 79% of respondents conduct periodic risk assessments to identify cybersecurity threats and potential business consequences, only 32% apply those assessment requirements to their outside vendors. Money managers and other service providers are responding to RFP requests for cybersecurity details, said Freeman Wood, principal at Mercer Sentinel in Chicago. They are, for example, detailing how they are proactively testing internal controls to fight cyberattacks. They are also vigorously scrutinizing their outsourced vendors, which Mercer Sentinel's Mr. Sommer said is a new phenomenon. Managers' third-party providers under review include custodians, fund administrators and other middle-and back-office providers and any organization that has a firm's confidential information -- client information, portfolio information into possible trades -- and actual access to money through any means, not just the ones you would think of. He cited the 2013 Target Corp. data breach, which eventually was discovered to have come from a computer of a heating and air-conditioning firm under contract to the retailer. It is any vendor, providing any service, that has a link to that firm's data. A greater focus -- and one often overlooked -- is physical security, Mr. Sommer said. With so much business activity now being done outside the office, it is encrypting laptops and personal devices, but it is also securing against access to a company's server. Outside office access is now integral in our reviews of provider security. Breaches can also be accidental but still risky, said John Barlament, partner, data privacy, at Quarles & Brady LLP, Milwaukee. Last month, a third-party administrator for DB and DC plans accidentally disclosed Social Security numbers, account balances and other information from participants in one company plan to another plan, which automatically downloaded the information into its database. The vendor had one site where all clients could access via password. That was totally inadvertent, with no malicious intent. It was not a case of a disgruntled employee. But regardless, it was a data breach. A big concern for providers is from within. It is more likely that employees can get into systems. That is why you need strict

monitoring ... to be able to spot suspicious activity. You also need layers (of security). First the walls, then the moat, and then the people with the shotguns. The executive director of the \$9.7 billion Ohio Public Employees Deferred Compensation Program, Columbus, has internal concerns over data security because record-keeping is done in-house. Among the program's internal security checks is an audit by an accounting firm every two years that looks at the plan's physical and electronic security. They actually try to breach our system. The good news is that they have not been able to.

3. THE GROWING TAILWIND FOR ACTIVE MANAGERS: According to a new white paper by Alger, the past few years have been challenging for active portfolio managers. For the five-year period that ended at the close of 2014, only 11% of active U.S. large-cap managers outperformed the S&P 500. 2014 was also discouraging, with only 14% of active large-cap managers outperforming the S&P 500. It was the worst showing in the past 15 years. In this paper, the author identifies the causes of active managers' underperformance and explains why macroeconomics and market conditions are likely to change and provide a tailwind for portfolio managers. The following factors have created adversity for equity managers and have detracted from the performance of active portfolios in recent years:

- Extremely low return dispersion of stocks;
- investors favoring bond-like equities while placing less emphasis on the relationship of corporate fundamentals and valuations; and
- Underperformance of small cap and international equities.

Stock return dispersion is the variation of performance among stocks. Return dispersion provides potential for investors to select stocks that outperform market indices and avoid stocks that underperform. As return dispersion increases, therefore, the likelihood of managers outperforming also increases. Unfortunately, the average annual return dispersion as measured by the difference in the top and bottom 10% of performers has been extremely low in recent years. In fact, the five-year average annual dispersion for the period ended December 31, 2014, was the lowest in at least two decades. At the same time, historically low yields of fixed income securities have caused many investors to favor bond-like equities, including utilities, real estate investment trusts, telecommunications companies, and other

companies with low earnings dispersions. In flocking to bond-like equities, investors have sought stocks of companies that generate predictable earnings and attractive dividend yields. In the process, investors have downplayed corporate fundamentals as many bond-like equities have outperformed even in the face of downward earnings revisions and weak fundamentals. Many active managers, in comparison, have underweighted bond-like equities while focusing on companies with more dynamic earnings growth, which has been detrimental to performance. The problem was particularly acute in 2014, when the utilities sector was the top performing sector within the S&P 500. Managers' overweighting of smaller cap stocks has also been a factor. Smaller cap stocks have outperformed equities of larger companies over time. Yet, in the recent past, active managers' allocations to smaller cap equities have hurt performance because the stocks have underperformed. The typical large cap fund owns smaller cap stocks than those found within the S&P 500 and active managers' relative performance is generally correlated with small cap returns relative to large cap returns. The headwind of smaller cap stocks under-performing was most noticeable in 2014, when the asset class as measured by the Russell 2000 Index, generated a 4.9% return compared to the 13.7% return of the S&P 500. Active managers' allocations to foreign equities have also hurt performance. Over long-term periods, foreign equities have typically generated returns that are competitive with U.S. stocks. The performance of foreign stocks is an important factor for active managers because the equities represent about 8% of portfolio assets, despite not being included in the S&P 500. Unfortunately, the asset class has underperformed in recent years. During the five-year period ended December 31, 2014, non-U.S. equities as measured by the MSCI ACWI ex USA Index generated a cumulative total return of 27% compared to the 105% total return of the S&P 500. The underperformance of foreign equities is estimated to have detracted approximately 50 basis points a year from U.S. managers' performance since 2009. Alger believes a more fertile environment for active managers is developing. The environment is characterized by the following items:

- Expectations of higher interest rates;
- Improved performance of small cap and international stocks; and
- The maturing of the business cycle.

Investors' expectations of certain macroeconomics factors, including

higher interest rates, are likely to be favorable for active portfolio management. The authors expect interest rate increases to be subtle, unlike consensus expectations that in the spring of 2015 predicted that the yield of a 10-Year Treasury would climb from approximately 2.2% currently to 3.5% in 2017. Our view of a more benign interest rate environment is influenced by low interest rates abroad, including in Europe and Japan, which may cause foreign investors to allocate assets to U.S. bonds. That trend is likely to help keep longer-term interest rates low in the U.S. From a market perspective, of course, investors' overall outlook for interest rates as measured by consensus expectations is important. Investors who anticipate interest rate increases typically sell income-producing investments such as bonds and bond-like equities in anticipation that the higher rates will cause trading prices of the securities to decline. A change in investor sentiment resulting from expectations of higher interest rates may already be occurring, with Utilities being the worst performing sector within the S&P 500 during the first quarter of 2015. A broader rotation by investors away from bond-like equities could cause the securities to underperform, which could help active managers who, broadly speaking, are underweight utilities, telecommunications, and REIT stocks. As investors sell bond-like equities, they will be less likely to pursue companies with low earnings dispersion. Instead, we believe investors will focus on company fundamentals, including expectations for earnings growth. The shift among investors could create an improved environment for active managers because the stocks of the strongest corporations could outperform and the return dispersion of equities could widen. With regard to smaller companies, the asset class will benefit from a strong U.S. dollar and expectations that interest rates will rise. With the Federal Reserve planning to increase short-term interest rates after having already wound down quantitative easing, the value of the U.S. dollar has climbed relative to other currencies. For American companies, a strong dollar weakens the value of earnings from foreign markets when the earnings are converted to U.S. currency. Since smaller cap companies generally have less exposure to foreign markets than their larger counterparts, they are less susceptible to currency exchange rates, which may make the companies more appealing to investors who expect the strength of the U.S. dollar to continue. Smaller cap stocks, furthermore, tend to outperform when interest rates rise. This characteristic of the asset class has been demonstrated during

various periods of rising interest rates that occurred from 1962 to 2013. Going forward, improved performance of small cap stocks could result in the asset class no longer being a drag on active managers' returns relative to market benchmarks. Looking beyond the U.S., the performance of equities of foreign companies with strong fundamentals may potentially strengthen, which would be another important tailwind for active U.S. equity portfolio managers. The strong U.S. dollar is likely to support manufacturing abroad, which could stimulate international economic growth and boost foreign companies' earnings, thereby supporting the performance of non-U.S. stocks. In addition, record levels of stimulus, including quantitative easing in Europe and Japan and low interest rates across the globe, are likely to support economic growth that should result in stronger performance of foreign equities. Many U.S. based investment managers have allocated assets to foreign stocks, so strengthening performance of the asset class could provide substantial support to actively run portfolios.

4. QUESTIONS TO ASK YOUR CURRENCY MANAGER: Berenberg Asset Management LLC., says there are specific Questions to Ask Your Currency Manager. It is interesting that views on currency management seem to be on two opposite ends of the spectrum. People either believe that currency management is extremely simple, or so complex that it is rendered unexplainable. Fortunately, neither view is correct -- the truth lies somewhere in between. If you have a currency program in place with a specialist manager, or are thinking of implementing one, this middle ground becomes important territory for asking questions of your manager or prospective manager. In my experience, the answers to these five questions will help determine whether or not the manager can deliver consistent outperformance over a sustainable period of time, which is, of course what you want from any manager. So here are the questions:

- **How can you be confident that the past performance you show will reflect our on-going experience?** This is a good one. When investors are searching for currency managers, they are often shown uncannily good results. The problems often arise when their actual performance does not resemble the results shown during the sales process. Clearly, positive past performance does not necessarily produce great future

performance, but one would think that there might be some correlation. In any case, the manager should have a strong understanding of how returns are impacted by their own portfolio building approach. For example, whether a manager bases their decisions on fundamental inputs or price data, over-fitting is often a problem. The typical result is performance that looks great before the mandate is awarded and then not so great in real time. The manager needs to have a good understanding of how to construct a portfolio of models, and the right answer generally does not come from picking the best performing model historically, or the top few models and combining them. In my experience, that just does not work very well. There is a better way, and you should find managers that know how to do it well. Ask for complete transparency in how portfolios are set-up, and if you do not get it, walk away.

- **Have you changed your approach in the past, and if so, why?** While most institutional quality currency managers do a pretty good job of explaining their investment thesis, a good question to ask is when was the last time they changed it? It is not uncommon for managers to switch from one philosophy to another, especially when the original one did not work so well. A case in point can be found post 2008. While many investors believed that interest rate differentials -- the infamous "carry trade" -- was the only real driver to currency market prices, they found out the hard way that risk aversion and monetary policy can make that approach difficult to sustain. These days, there are few, if any managers that exclusively use a carry strategy as they have switched to a more palatable multi-strategy approach. The key here is to understand why they believed so strongly in carry prior to the Global Financial Crisis, or even prior to the de-pegging of the Swiss franc a few months back, and what caused them to change their core philosophy and beliefs, other than the desire to stay in business when their strategy did not work. The best managers are the ones who have an investment approach that captures something lasting, and does not need to be re-worked every few years.
- **Is your research team built to add value for your clients, or just to write interesting papers?** There are some research departments that add a lot of value, and others, not so much. The question becomes what is valuable from the client's

perspective? For example some papers, like this one, can be written to provide a good overview of some key strategic themes or ideas. Other research can sift through vast amounts of data and provide useful information regarding volatility surfaces, the quality of execution, and the impact over time of certain approaches to currency management, and so forth. Finally, research can add true value to the manager's investment process by bringing a cross section of mathematical and financial quantitative skill sets and combining them in a way to add value, focusing on the end result of increased risk-adjusted returns. While this aspect is sometimes a bit hidden given the proprietary nature of many processes, it is really important because a manager's research drives their ability to provide consistent returns over various market cycles. So which of these three is the most important? As a client, you should demand all three. You can tell if all of these are present by the makeup of the research team. Ideally, you will aim to see a mixture of true thought leaders for the first part, serious quants for the second part and a good combination of interdisciplinary research team members for the third part. If a firm does not have all three of these, then the research team will struggle to provide real value for the client over different market cycles, which is really all you should care about.

- **Do you have a fully staffed 24 hour trading desk and portfolio management team, just a single overnight trader or nothing outside of your local time zone?** I was really surprised to learn recently that most of the large institutional currency managers do not really have full time, 24 hour investment staff. Some will only staff their desks during local market hours. While I assume this might work some of the time for managers based in the U.S. or Europe, there are far too many instances of large market moves happening outside of those time zones. It can be a little unsettling to think of an empty portfolio management desk when a crisis erupts. Other managers have only trade execution staff in place overnight. While this is better than nothing, these teams typically have the capability to execute trades, but may not really understand the overall portfolio and therefore have little understanding of the clients' strategic objectives nor the ability to interface with clients if the need should arise. The best managers have both execution

- staff as well as separate portfolio management, or even research team members in the office around the clock.
- **Are the people running your investment process the same ones that developed it?** While not everyone stays with the same firm forever, it is important that the people who developed the investment philosophy and process are still actively involved in the management of client assets and the research into markets and strategies. The danger lies where the person with the intellect and initiative behind the strategy either leaves, or stops being heavily involved in the business and the remaining team either does not have the ability to maintain the high standard of quality performance or simply sits back and rests on previous successes. Either outcome can be a dangerous place for client assets.

So there we have it, questions that you should ask your currency manager. The manager that you hire should be able to answer each of these questions well, in a transparent and comprehensive way. If you get a hesitant, incomplete or defensive response you might want to look elsewhere.

5. IRS UNVEILS MORTALITY TABLES FOR 2016 PENSION FUNDING: Internal Revenue Notice 2015-53 provides updated static mortality tables to be used for defined benefit pension plans under §430(h)(3)(A) of the Internal Revenue Code and §303(h)(3)(A) of the Employee Retirement Income Security Act of 1974, Pub. L. No. 93-406, as amended. These updated tables, which are being issued using the methodology in the existing final regulations under §430(h)(3)(A), apply for purposes of calculating the funding target and other items for valuation dates occurring during calendar year 2016. This notice also includes a modified unisex version of the mortality tables for use in determining minimum present value under §417(e)(3) of the Code and §205(g)(3) of ERISA for distributions with annuity starting dates that occur during stability periods beginning in the 2016 calendar year. Section 412 of the Code provides minimum funding requirements that generally apply for defined benefit plans. Section 412(a)(2) provides that §430 specifies the minimum funding requirements that generally apply to defined benefit plans that are not multiemployer plans. Section 430(a) defines the minimum required contribution for such a plan by reference to the plan's funding target

for the plan year. Section 430(h)(3) provides rules regarding the mortality tables to be used under §430. Under § 430(h)(3)(A), except as provided in §430(h)(3)(C) or (D), the Secretary is to prescribe by regulation mortality tables to be used in determining any present value or making any computation under §430. Those tables are to be based on the actual experience of pension plans and projected trends in that experience. Section 430(h)(3)(B) provides that periodically (at least every 10 years) these mortality tables shall be revised to reflect the actual experience of pension plans and projected trends in that experience. Section 430(h)(3)(C) provides that, upon request by a plan sponsor and approval by the Secretary, substitute mortality tables that meet the applicable requirements may be used in lieu of the standard mortality tables provided under § 430(h)(3)(A). Section 430(h)(3)(D) provides for the use of separate mortality tables with respect to certain individuals who are entitled to benefits on account of disability, with separate tables for those whose disabilities occurred in plan years beginning before January 1, 1995, and those whose disabilities occurred in plan years beginning after December 31, 1994. These separate mortality tables are permitted to be used with respect to disabled individuals in lieu of the generally applicable mortality tables provided pursuant to §430(h)(3)(A) or the substitute mortality tables under §430(h)(3)(C). Section 1.430(h)(3)-1 of the regulations provides for mortality tables, based on the tables contained in the RP-2000 Mortality Tables Report, adjusted for mortality improvement using Projection Scale AA as recommended in that report. Section 1.430(h)(3)-1 generally requires the use of separate tables for nonannuitant and annuitant periods for large plans (those with over 500 participants as of the valuation date). Sponsors of small plans (those with 500 or fewer participants as of the valuation date) are permitted to use combined tables that apply the same mortality rates to both annuitants and nonannuitants. Section 1.430(h)(3)-1 describes the methodology that the IRS will use to establish mortality tables as provided under §430(h)(3)(A). The mortality tables set forth in §1.430(h)(3)-1 are based on expected mortality as of 2000 and reflect the impact of expected improvements in mortality. The regulations permit plan sponsors to apply the projection of mortality improvement in either of two ways: through use of static tables that are updated annually to reflect expected improvements in mortality, or through use of generational tables. The regulations include static mortality tables for use in actuarial valuations as of valuation dates

occurring in 2008 and provide that the mortality tables for valuation dates occurring in future years are to be provided in the Internal Revenue Bulletin. Notice 2008-85, 2008-42 IRB 905, sets forth the static mortality tables that apply under §430(h)(3)(A) for valuation dates during 2009 through 2013. Notice 2013-49, 2013-32 IRB 127, provides static mortality tables for valuation dates during 2014 and 2015. Notice 2013-49 also requested comments regarding the publication of mortality tables for future years, and several comments were received. The Treasury Department and the IRS also received additional comments in response to the RP-2014 Mortality Tables Report and the Mortality Improvement Scale MP-2014 Report. The Treasury Department and the IRS are considering the comments received and expect to issue proposed regulations revising the base mortality rates and projection factors in §1.430(h)(3)-1. However, in order to give time for notice and comment on the proposed regulations, the new regulations will not apply until 2017. After regulations implementing new mortality tables are finalized, as additional data regarding mortality improvement for more recent years becomes available, the Treasury Department and IRS expect to regularly review trends in mortality improvement and will update the projection of mortality improvement as necessary. For a plan for which the effective date of § 430 is delayed pursuant to section 104 of the Pension Protection Act of 2006, Public Law 109-280, as amended (PPA '06), current liability under § 412(l)(7) (as in effect prior to the enactment of PPA '06) must be determined in order to calculate the plan's minimum required contribution. For this purpose, § 1.412(l)(7)-1(a) provides that for plan years beginning on or after January 1, 2008, the mortality tables described in §430(h)(3)(A) are to be used to determine current liability under §412(l)(7) for nondisabled participants. Section 1.431(c)(6)-1 provides that the same mortality assumptions that apply for purposes of §430(h)(3)(A) and §1.430(h)(3)-1(a)(2) are used to determine a multiemployer plan's current liability for purposes of applying the full-funding rules of §431(c)(6). For this purpose, a multiemployer plan is permitted to apply either the annually-adjusted static mortality tables or the generational mortality tables. Section 433 provides the minimum funding standards for CSEC plans, which are described in section 414(y). Section 433(h)(3)(B)(i) provides that the Secretary may by regulation prescribe mortality tables to be used in determining current liability for purposes of § 433(c)(7)(C). The Treasury Department and the IRS expect to issue

regulations prescribing that the mortality tables described in §430(h)(3)(A) are to be used to determine current liability under §433(c)(7)(C). Section 417(e)(3) generally provides that the present value of certain benefits under a qualified pension plan (including single-sum distributions) cannot be less than the present value of the accrued benefit using applicable interest rates and the applicable mortality table. Under §1.417(e)-1(d), these rules must also be used to compute the present value of a plan benefit for purposes of determining whether consent for a distribution is required under §411(a)(11)(A). Section 417(e)(3)(B) defines the term “applicable mortality table” as the mortality table specified for the plan year under §430(h)(3)(A) (without regard to §430(h)(3)(C) or (D)), modified as appropriate by the Secretary. Rev. Rul. 2007-67, 2007-2 CB 1047, provides that, except as otherwise stated in future guidance, the applicable mortality table under §417(e)(3) for 2008 is based on a fixed blend of 50% of the static male combined mortality rates and 50% of the static female combined mortality rates promulgated under §1.430(h)(3)-1(c)(3) of the proposed regulations (which have since been issued as final regulations). The applicable mortality table for purposes of §417(e)(3) is not a generational table. Rev. Rul. 2007-67 also provides that the applicable mortality table for a given year applies to distributions with annuity starting dates that occur during stability periods that begin during that calendar year. Rev. Rul. 2007-67 further states that the §417(e)(3) applicable mortality table for each subsequent year will be published in future guidance and, except as provided in that future guidance, will be determined from the §430(h)(3)(A) tables on the same basis as the applicable mortality table for 2008. Notice 2008-85 set forth the §417(e)(3) applicable mortality tables for distributions with annuity starting dates that occur during stability periods beginning during calendar years 2009 through 2013. Notice 2013-49 set forth the § 417(e)(3) applicable mortality tables for distributions with annuity starting dates that occur during stability periods beginning during calendar years 2014 and 2015. This notice sets forth the mortality tables for minimum funding and present value requirements for 2016. The static mortality tables that apply under §430(h)(3)(A) for valuation dates occurring during 2016 are set forth in the appendix to this notice. The mortality rates in these tables have been developed from the base mortality rates, projection factors, and weighting factors set forth in §1.430(h)(3)-1(d), using the blending techniques described in the preamble to those regulations. The static

mortality tables that apply under §417(e)(3) for distributions with annuity starting dates occurring during stability periods beginning in 2016 are set forth in the appendix to this notice in the column labeled "Unisex." These tables were derived from the tables used for §430(h)(3)(A) following the procedures set forth in Rev. Rul. 2007-67. To see the complete Notice 2015-53 Notice with the actual mortality tables, please visit: <http://www.irs.gov/pub/irs-drop/n-15-53.pdf>. (August 2016).

6. STATES START RESTRICTING POLICE LICENSE PLATE

READERS: Police have a new set of eyes called automated license plate readers, and they are growing in popularity -- and controversy according to governing.com. Automated license plate readers are mounted either on a police car or a fixed position like a bridge. As their name suggests, they read the numbers and letters on license plates -- even when vehicles are moving at high speeds -- and tag the time and location. Then another program compares the data with a list of license plates associated with criminal activity. The entire process takes just seconds and can automatically check tens of thousands of plates in just one hour. That is why cops love them, said a senior program manager for the International Association of Chiefs of Police. The old practice involved driving around and checking license plate numbers on suspicious cars against a hotlist typed on sheets of paper. Automated license plate readers can do in minutes what it took a cop to do in an entire shift. The technology not only makes police more efficient, it has been shown to increase arrests of car thieves and deter auto theft, according to a 2010 study of large and small police departments across the U.S. In 2007, 17% of America's police departments had automated license plate readers, according to the Rand Corporation. By 2012, that number had jumped to 71%. Meanwhile, the cost of the technology has dropped. Today, installing the readers in every police car costs departments between \$10,000 and \$25,000. But hardware and software costs are only a portion of the overall expense. Police departments sometimes overlook the labor costs associated with running one of these systems. Depending on its size, the technology can require one -- if not more -- full-time administrators to maintain and repair the cameras, update the lists of stolen and suspect vehicles, and upgrade the software. Despite their benefits, automated license plate readers are not technologically flawless. Bad weather, poor lighting, the speed of the vehicles, dirt on

plates and even background colors can affect how well a camera "reads" a license plate. Under good conditions, the technology can accurately read over 90% of the plates they scan. But when conditions are less than ideal, performance can drop -- below 80%, according to some reports -- potentially triggering false matches. In 2009, for example, police detained a person in San Francisco after her car was mistakenly identified as stolen because the system misread her license plate. The driver later sued the police department, according to the San Francisco Chronicle. But the biggest issue with the readers is privacy. Some worry that police will use the technology to track just about anyone who drives a car. In 2013, the American Civil Liberties Union studied 600 state and local police departments' use of automated license plate readers. The ACLU acknowledged the technology has a legitimate law enforcement purpose but was alarmed at the lack of rules about its use. According to the ACLU, departments keep the records anywhere from 48 hours in Minnesota to five years in New Jersey. Too many police departments are storing millions of records about innocent drivers, the organization concluded. Proponents of the readers, however, argue that they do not collect personal information about drivers and are not used to track people in real-time. Nevertheless, growing concerns about possible abuse have led six states (Arkansas, Maine, Maryland, New Hampshire, Utah and Vermont) to enact laws that restrict or prohibit the technology, according to Pam Greenberg of the National Conference of State Legislatures. In June, Louisiana Governor Bobby Jindal (who is vying for the Republican nomination for president) vetoed a bill that would have let the state start using automated license plate readers. The technology, he said, poses "a fundamental risk to personal privacy and create large pools of information belonging to law-abiding citizens that unfortunately can be extremely vulnerable to theft or misuse." State efforts to regulate the readers worry the law enforcement community so much that they have asked Congress not to restrict the use of the technology, arguing any further limits would significantly impact their ability to investigate crimes. At the same time, however, the police realize they need to set comprehensive privacy and data retention policies. In other words, if a police department is using the technology to identify parking scofflaws, then there is no need to retain the data for more than a few days. But if the data is gathered for more complicated criminal investigations and needs to be kept for a longer period, then the policy should explain that and have empirical

evidence to support it. The police should also define what constitutes authorized use of the data it's captured, whether that data can be shared and under what circumstances, according to IACP's guidelines. Finally, the use of the license plate data should be regularly audited to show it is being properly used and stored so as not to violate the privacy of innocent drivers.

7. ON SECOND THOUGHT...MAYBE THEY WERE WRONG?: I think there is a world market for maybe five computers. Thomas Watson, chairman of IBM, 1943.

8. TODAY IN HISTORY: In 1951, Great Britain and Iraq sign new oil contract.

9. KEEP THOSE CARDS AND LETTERS COMING: Several readers regularly supply us with suggestions or tips for newsletter items. Please 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 them. Rest assured that we will not publish any names as referring sources.

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

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

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