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CYPEN & CYPEN NEWSLETTER for SEPTEMBER 3, 2015

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Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. RETIREMENT CONFIDENCE DROPS: According to Employee Benefit Adviser, retirement confidence dipped slightly in 2015, but workers are still more confident than they were during the height of the Great Recession. Nearly 60% of workers say they are somewhat or very confident they will be able to retire comfortably and, 49% say they are saving enough for retirement, which is a slight drop from 2014. American workers are still recovering from what is commonly referred to as the Great Recession. Most are focused on saving for retirement yet confidence is still lacking among many. As a natural outcome, many expect to continue working in retirement. Nearly one-

quarter of workers say they have not quite recovered from the Great Recession, with 15% saying they have not yet begun to recover and 8% saying they may never recover, according to the 16th Annual Transamerica Retirement Survey. The good news is that 37% of workers who responded to the survey said they had fully recovered or not impacted at all by the Great Recession, an increase from last year. The bulk of today's workers are concerned about retirement, saying that their generation will have a harder time achieving financial security compared to their parents' generation, according to the survey. More than three-quarters are worried Social Security will not be there for them when they are ready to retire. Workers fear outliving their savings in retirement and are worried about long-term care and a reduction in Social Security benefits by the time they retire. Other retirement fears include not being able to meet the financial needs of their family, cognitive decline and a lack of adequate or affordable health care, the study found. The percentage of workers who say that saving for retirement is their top priority increased from 2011 to 2014 and remained steady in 2015. Nearly one-third of respondents said that saving for retirement is their top priority. Other priorities are covering basic living expenses and paying off debt or student loans. Forty-nine percent of workers expect to self-fund their retirement, using their 401(k) plan, IRA or other savings and investments. Twenty-six percent plan to rely solely on Social Security as their primary source of income in retirement. Thirteen percent say they will just keep working in retirement to help them pay expenses. With regard to saving and planning for retirement, there is no such thing as an average American. Each demographic segment faces its own unique opportunities and challenges. Nevertheless, we live in a time in which all workers face retirement-related risks and the need to take greater personal control of their long-term financial security. Forty-eight percent of Millennials and 40% of Generation X expect to fund their retirement through a defined contribution plan or IRA, while 35% of baby boomers are still relying solely on Social Security. The survey also polled people on their expected standard of living in retirement and where they were saving for retirement. Seventy-six percent of workers said they are saving for retirement through an employer-sponsored retirement plan, which is a drop from 80% in 2011. The median age at which workers started saving for retirement was 27. The number of workers who have access to an employer-sponsored retirement plan dropped slightly from 2014 to 2012. That number is

significantly lower than the number that was offered plans in 2012, Transamerica said. Only 66% of workers had access in 2015, compared to 76% in 2012. Participation rates are high for workers who have access to a plan, the study found, increasing slightly from 2011, and the amount people are saving in their plan annually also increased slightly from 6% of annual pay in 2011 to 8% of annual pay in 2015. The Transamerica Center for Retirement Studies is a division of Transamerica Institute, a nonprofit, private foundation. Its goal is to educate the public about emerging retirement trends in the United States.

2. 2015 GLOBAL SURVEY OF ACCOUNTING ASSUMPTIONS FOR DEFINED BENEFIT PLANS: Towers Watson has published a white paper entitled *2015 Global Survey of Accounting Assumptions for Defined Benefit Plans*. In broad terms, accounting standards aim to enable employers to approximate the cost of an employee's pension or other postretirement benefit over that employee's service period. Any benefit accounting method that recognizes the cost of benefits before their payment becomes due must be based on estimates or assumptions about future events that will determine the amount and timing of benefit payments. Two of the key economic assumptions in the determination of benefit costs under an accounting standard are the discount rate and inflation. Under ASC 715, there is a further key economic assumption, the expected long-term rate of return on plan assets (for funded plans). In many countries, three additional economic assumptions, which are more or less linked to inflation, can play a key role: rate of salary increase; rate of increase in pensions, both in deferment and in payment; and rate of increase in social security parameters reflected in the pension benefit formula. Although the survey mainly explores economic assumptions, the authors have again shown data regarding mortality assumptions, which are receiving closer attention because of increasing longevity. The observations in the report reflect data at or near the end of 2014. During 2014, investment returns on plan assets (both bond and stock returns) were relatively strong in most major markets. At the same time, decreasing discount rates boosted the growth in plan obligations and, in most cases, at a rate higher than the growth of plan assets. The survey represents 1,122 companies with data from 48 countries, includes the following key findings:

- Overall, the authors observed a significant decrease in both government and corporate bond yields from last year-end. The vast majority of long-term bond yields experienced a downward trend and discount rates followed suit.
- The average projected benefit security ratio decreased for the majority of countries shown. During 2014, investment returns on plan assets (both bond and stock returns) were relatively strong in most major markets. At the same time, decreasing discount rates boosted the growth in plan obligations and, in most cases, at a rate higher than the growth of plan assets.
- The majority of surveyed countries have implied life expectancies between 20 and 30 years. The impact of the differences in this assumption will vary depending on whether the typical payment form is lump sum or annuity. In Canada and the U.S., new mortality tables were released in 2014, showing significantly increased life expectancies, which would lead to higher pension and other postretirement benefit obligations.

3. NATIONAL INSTITUTE ON RETIREMENT SECURITY SAYS MANHATTAN INSTITUTE RESEARCH ON PENSIONS IRRELEVANT, HIGHLY FLAWED: A new study is so fundamentally flawed that it is irrelevant to the retirement security debate according to the National Institute on Retirement Security. The new study, *Defined-Contribution Pensions Are Cost-Effective*, is authored by Josh McGee, a senior fellow at the Manhattan Institute. It claims to assess public sector retirement plans but uses private sector pension data that is not comparable, which invalidates the findings. It is perplexing why the study uses the wrong data in the analysis. This major miscalculation renders McGee's study misleading and useless. This is just one of the many problems with his study, said Diane Oakley, NIRS executive director. The study is not even an apples to oranges comparison – it is apples to nothing. Also troubling is that the study's title is not supported by any numbers in the report to demonstrate the cost-efficiency of a defined contribution plan. Oakley said. NIRS stands by its research, *Still a Better Bang for the Buck: Update on the Economic Efficiencies of Pension Plans*, ([See C & C Newsletter for December 11, 2014, Item 1](#)) which is inaccurately criticized in the McGee study. The numbers in the NIRS study add up, and it remains a credible and accurate retirement study. It was conducted by a respected pension actuary with both public and private sector

experience; it is based on empirical research on investment behaviors of individuals; and was carefully reviewed by a committee of experts.

The McGee study:

- Claims that DB plans are not structurally more cost-effective than DC plans. But, NIRS data and empirical evidence shows otherwise. DB plans can deliver a target retirement benefit at half the cost of a DC account.
- Says DC plans get similar investment returns as DB plans. But, the analysis fails to use public pension data, and it conveniently ignores asset allocation shifts in private sector pensions due to “frozen” pensions.
- Indicates the DC plans can offer annuities. But, few offer annuities and even fewer retirees choose annuities because they are costly. The author conveniently ignores these costs or seeks to buy them from the DB plan.
- Says pension debt is a significant cost driver for DB plans. But, this not relevant to the economic efficiencies of DB plan – just like funding shortfalls and asset leakage are not relevant to measuring the efficiency of DC accounts to deliver adequate income replacement.
- Indicates DC plans are a good retirement security option. DC plans can be well designed, but the one public DC plan that might come close to the cost efficiencies of public pensions relies on the state DB plan to provide lifetime income. Luckily, this state reopened the DB plan to new employees and most of them actively make elections to join the DB pension.

The National Institute on Retirement Security is a non-profit, non-partisan organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole. Located in Washington, D.C., NIRS’ diverse membership includes financial services firms, employee benefit plans, trade associations, and other retirement service providers. More information is available at www.nirsonline. (Tain’t funny, McGee.)

4. GENERATIONAL DIFFERENCES – READY OR NOT RETIREMENT?: National Association of Government Defined Contribution Administrators, Inc. says statistically, Americans are living longer (July 2014 estimates of over 70,000 centenarians (100+) 80% were female). As a result, retirement income remains a growing concern, one that is shared by both employers and employees. Employee populations are mixed primarily across three generations: Baby Boomers, Gen X and Millennials (a/k/a Gen Y). Every age group needs increasingly to plan for their own retirement. What can employers do to communicate with and help their employees be better prepared for retirement? The NAGDCA has a publication which serves as a handy checklist for plan sponsors to better understand the behaviors, attitudes and communication preferences each demographic group has when it comes to retirement planning. Suggested communication points are included that plan sponsors might incorporate into participant materials and meetings. Here is the link to this informative publication: <http://www.nagdca.org/dnn/Portals/45/Publications/Issues/NAGDCA%20Behavioral%20Economics%20Publication%202015.pdf>.

5. DC PARTICIPANT CLIENTS LIKELY UNABLE TO RETIRE AT 65: Six in ten workers are not on track to meet their needs in retirement at age 65, according to a recent analysis. An analysis from Aon Hewitt reveals that most workers will likely need to work longer to save enough to maintain their standard of living in retirement. The analysis of 77 large U.S. employers, representing 2.1 million employees, projects the average worker will need to save eleven times their final pay at retirement (age 65) to keep their preretirement lifestyle. However, most workers are coming up short. Only one in five are on track to meet or exceed their needs in retirement at age 65. An additional 20% may be close to having reasonably adequate savings with some lifestyle adjustments. This leaves 60% of workers unable to afford to retire at age 65. Aon Hewitt projects that age 68 is the median age U.S. workers will be able to retire with sound financial security, while 16% are not expected to have enough to retire even by age 75. Aon Hewitt notes that exact income replacement depends on the unique situation of each worker including age, income, anticipated retirement age and Social Security. The benefits landscape has changed over time and U.S. workers are now accountable for a greater portion of their financial needs in retirement. Unfortunately,

most are under-prepared. The most important thing they can do is to establish goals for the kind of retirement they want and determine a savings plan to meet those needs and desires. This might mean starting to save more now, delaying retirement by a few years, or making a conscious choice to retire with a lower living standard. A separate Aon Hewitt survey found that just more than half of workers (54%) have estimated their retirement needs, determined savings requirements or forecasted how much income they will need in retirement. Only 40% of workers have created a financial plan to achieve their retirement goals.

6. STATES WITH THE WORST-FUNDED PENSION PROGRAMS:

The U.S. had a \$968 billion shortfall in 2013 -- up \$54 billion from the prior year -- between the pension benefits that were promised to employees and what was actually saved to make those payments, according to a recent report by Pew Charitable Trusts. Here are the states with the worst-funded pension programs based on the percentage the programs were funded in 2013. Rankings are listed in ascending order:

- Nevada / Vermont - Percentage of pension program funded: 69%.
- New Mexico/Oklahoma/West Virginia - Percentage of pension program funded: 67%.
- Alabama / Virginia - Percentage of pension program funded: 66%.
- Indiana / Maryland - Percentage of pension program funded: 65%.
- New Jersey/South Carolina - Percentage of pension program funded: 63%.
- Pennsylvania - Percentage of pension program funded: 62%.
- Colorado/Massachusetts/North Dakota - Percentage of pension program funded: 61%.
- Hawaii/Kansas/Michigan - Percentage of pension program funded: 60%.
- Louisiana/Mississippi/Rhode Island - Percentage of pension program funded: 58%.
- New Hampshire - Percentage of pension program funded: 57%.
- Alaska - Percentage of pension program funded: 55%.
- Connecticut - Percentage of pension program funded: 48%.

- Kentucky - Percentage of pension program funded: 44%.
- Illinois - Percentage of pension program funded: 39%.

7. ON SECOND THOUGHT...MAYBE THEY WERE WRONG?: If excess smoking actually plays a role in the production of lung cancer, it seems to be a minor one. W.C. Heuper, National Cancer Institute, 1954.

8. TODAY IN HISTORY: In 1995, eBay founded.

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.

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

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