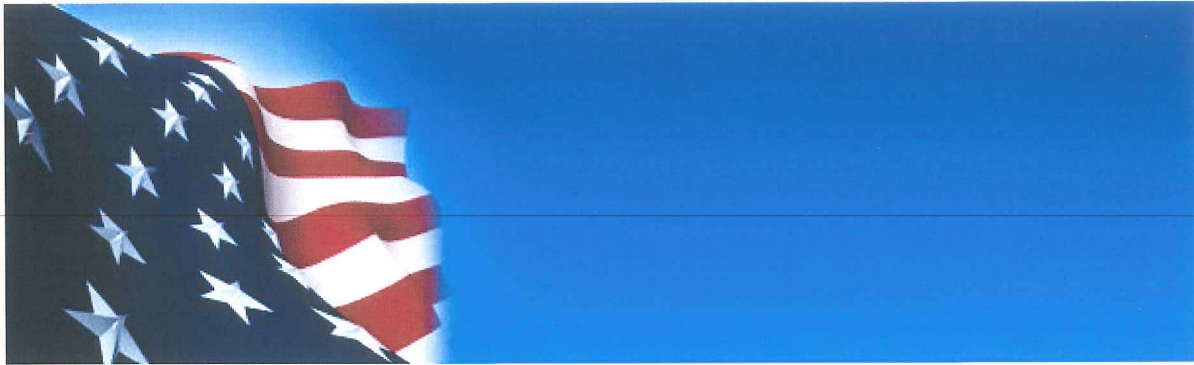


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CYPEN & CYPEN NEWSLETTER for OCTOBER 8, 2015

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Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. IT'S SLEAZY, IT'S ILLEGAL, AND YET IT COULD BECOME THE FUTURE OF RETIREMENT: Those are the provocative words of Jeff Guo, a staff writer for StoryLine. Over 100 years ago in America -- before Social Security, before IRAs, corporate pensions and 401(k)s - - there was a ludicrously popular (and somewhat sleazy) retirement scheme called the tontine. At their peak, around the turn of the century, tontines represented nearly two-thirds of the American insurance market, holding about 7.5% of national wealth. It is estimated that by 1905, there were 9 million tontine policies active in a nation of only 18 million households. Tontines became so popular that historians credit them for single-handedly underwriting the ascendance of the American insurance industry. The downfall of the tontine was equally dramatic. Not long after 1900, a spectacular set of scandals wiped the tontine from the nation's consciousness. To this day, tontines remain outlawed, and their name is synonymous with

greed and corruption. Their memory lives on mostly in fiction, where they invariably propel some murderous plot. Tontines, you see, operate on a morbid principle: you buy into a tontine alongside many other investors. The entire group is paid at regular intervals. The key twist: as your fellow investors die, their share of the payout gets redistributed to the remaining survivors. In a tontine, the longer you live, the larger your profits -- but you are profiting precisely off other people's deaths. Even in their heyday, tontines were regarded as somewhat repugnant for this reason. Now, a growing chorus of economists and lawyers is wondering if the world was not too hasty in turning its back on tontines. These financial arrangements, they say, have aspects that make a lot of sense, despite their history of disrepute. Some academics even argue that with a few new upgrades, a modern tontine would be particularly suited to soothing the frustrations of 21st-century retirement. It could help people properly finance their final years of life, a time that is often wracked with terribly irrational choices. Tontines could even be a cheaper, less risky way for companies to resurrect the pension. Read the rest of this fascinating article at: <http://www.washingtonpost.com/news/wonkblog/wp/2015/09/28/this-sleazy-and-totally-illegal-savings-scheme-may-be-the-future-of-retirement/>.

2. DEATH BONDS APPARENTLY DID NOT COME ALIVE: When we came across the article on tontines (see Item 1 above), it sparked the memory in our mind about death bonds, being Wall Street's most macabre investment scheme...to date. So, we thought why not rerun the item, after all, it has been eight years!:

The cover story on a recent BusinessWeek deals with "Death Bonds" and profiting from mortality. Death Bond is shorthand for a gentler term the industry prefers: life settlement-backed security. Whatever the name, it is as macabre an investing concept as Wall Street has ever cooked up. Some 90 million Americans own life insurance, but many of them find the premiums too expensive; others would simply prefer to cash in early. "Life settlements" are arrangements that offer people the chance to sell their policies to investors, who keep paying the premiums until the sellers die and collect the payout. For the investors it is a ghoulish actuarial gamble: the quicker the death, the more profit is reaped. Most of the transactions are done by small local

firms called life settlement providers, which in the past have typically sold policies to hedge funds. Now, Wall Street sees huge profits in buying policies, throwing them into a pool, dividing the pool into bonds and selling the bonds to pension funds, college endowments and other professional investors. If the market develops as Wall Street expects, ordinary mutual funds will soon be able to get in on the action, too. But the investment banks are wading into murky waters. The life settlements industry increasingly finds itself in a grip of dubious characters devising audacious and in some cases illegal schemes to make money. Many are targeting elderly people with deceptive sales pitches, so many that the [Financial Industry Regulatory Authority, Inc.] has issued a warning about abusive practices. Others are promising investors unrealistic returns or misleading them about the risks. Some are doing both. Here is how a life insurance policy becomes a death bond:

The Seller. A person, typically 70 or older, who wants to cash out a life insurance policy hires a “life settlement” broker to find prospective buyers. Buyers keep paying the premiums until the Seller dies, and then they collect. The up-front payout to the Seller varies widely, from 20% of the death benefit to 40%.

The Broker. A person paid to link Buyers and Sellers, this player typically seeks three bids from specialty finance firms called life settlement providers, which are often financed by hedge funds and investment banks. Commissions, paid by the Seller, usually range from 5% to 6%.

The Provider. The life settlement provider resells the insurance policy to a hedge fund or investment bank, which warehouses it in order to build a big pool of policies.

The Investment Bank/Hedge Fund. After a bank or hedge fund collects a sufficient number of policies, typically 200, it turns them into asset-backed securities called death bonds to sell to investors. The pitch: Death bonds will produce steady returns (around 8%) and are not correlated with stocks, bonds, commodities or other investments. [Duh!]

The Investor. Hedge funds and other big investors are already

buying up death bonds in Europe and expect a big bond issue in the U.S. soon. Institutional investors are especially attracted to uncorrelated assets, which make their portfolios less volatile.

The Bond Rater. Big debt-rating agencies such as Moody's Investors Service and Fitch Ratings are soon expected to start issuing ratings on death bonds in the U.S., opening the market to other big investors including mutual funds. Moody's has already rated at least one death bond issue, although it subsequently pulled the rating when the provider was charged with fraud.

Now who said there are a lot of creeps on Wall Street? ([See C & C Newsletter for August 9, 2007, Item 5.](#))

3. PREPARING FOR RETIREMENT: AN AMERICAN CRISIS: American workers are facing a retirement crisis, and many do not even know it is coming, let alone how to prepare for it. The retirement landscape has changed so dramatically and so rapidly over the past 30 years that multiple generations are woefully underprepared for retirement according to [metrowestdailynews.com](#). Today's workforce simply does not have a firm understanding of their future financial needs during retirement and therefore cannot adequately prepare. A 2012 study by the Employee Benefit Research Institute found that only a third of retirees planned for retirement before age 40, and 30% of approaching retirees have less than \$1,000 in savings and investments. Even though the retirement crisis we face is drastic and severe, it is solvable through education. Unfortunately, the swift change in the American retirement landscape was not coupled with a robust public education campaign preparing employees to build retirement security with this alternate set of tools -- leaving generations of workers unprepared for their retirement futures. Generations of Americans who are already retired or are currently retiring relied heavily on pension plans and Social Security to secure their retirement futures. These generations merely dabbled in IRAs, 401(k) accounts and brokerage accounts to supplement their retirement nest eggs. Future retirees will not have that luxury. Instead, they will need to build nest eggs with a combination of self-directed investment vehicles, like traditional and Roth IRAs, 401(k) accounts, personal savings and brokerage accounts. In addition, those retirees will need to map out a retirement income stream that draws from, or

converts those investment vehicles into, retirement income. This is a huge responsibility. Compounding this problem is the fact that sources of retirement income have significantly shifted over the past 30 years. In 1985, over 90% of Fortune 1000 companies offered defined benefit pension plans to salaried workers. Today, that number has plummeted to just 11%. Conversely, in 1985, 10% of those companies offered only a defined contribution plan, like a 401(k), to salaried workers; today that figure is 70%. This is a seismic shift in the retirement landscape, and while each plan structure has advantages and disadvantages, what is beyond debate is the impact on retirement planning caused by this rapid shift from pension plans to 401(k) plans. These new retirement vehicles are truly maximized by investing early, making it critical that employees start using them early in their careers. Furthermore, employees should continue saving throughout their working lives in order to secure a stable retirement. Unfortunately, as a society we do not formally educate students in finance or investing unless their college major requires it. Financial education is not happening at home either, according to a recent study that found less than one-third of parents discuss finances, investments and retirement preparation with their children. Even for the third of the parents that have discussed finances with their children, the drastic change in the retirement landscape probably makes much of their advice obsolete or not applicable to the retirement future their children will face. We have a collective responsibility to inform the working public about the need for proper retirement planning. Not only is it in all of our own self-interest to be ready, it is also critical that each subsequent generation is ready for life after full-time work. Otherwise the burden will fall on all of us.

4. NYC HISPANIC GEN-XERS AND BOOMERS FINANCIALLY STRESSED: AARP survey shows that one-third of New York City's Hispanic Gen-Xers and Baby Boomers say they do not think they will ever be able to stop working for money, saying high debt, housing affordability and healthcare are hampering their ability to save. The survey also found that Hispanics will be a large part of a looming "Gen-Xodus," with a staggering 71% of Hispanic Gen-X voters saying they are at least somewhat likely to move out of New York in retirement along with 48% of Hispanic Baby Boomers -- that is, if they even have enough money to retire. In comparison 66% of the total population of Gen-Xers, and 56% of Boomers, say they may flee the

city. As Gen-Xers started turning 50 this year, AARP conducted its first city survey of the generation, *High Anxiety: NYC Gen-X and Boomers Struggle with Stress, Savings and Security*. AARP then created a supplemental report, *High Anxiety: NYC Hispanic Gen-X and Boomers Struggle with Stress, Savings and Security*, to take a deeper look at what is driving the financial stress of Hispanics in the city. The poll, split between Gen-Xers and Baby Boomers, found that while financial anxiety is high among Gen-Xers and Boomers of all races and ethnicities, Hispanics in those age cohorts are feeling financial insecurities more widely. Compared to the total Gen-X and Boomer voters in New York City, Hispanic voters are more likely to experience obstacles to saving, particularly due to health care needs (60% Hispanic vs. 46% total), family caregiving (50% vs. 36%) and paying debt (56% vs. 44%). Hispanics also report lower rates of retirement savings accounts (48% vs. 62%); and larger shares among them are extremely to very concerned about affordable housing (52% vs. 36%).

5. CAREGIVING EXPENSES CAN DO YOU IN: Advisors would be wise to factor in potential long-term caregiving responsibilities when crafting retirement plans for clients, according to insurancenewsnet.com. Financial bumps can arise if clients who are caregivers start plucking money out of savings and retirement accounts in order to help pay expenses of a loved one who is receiving care. Similar problems arise if caregivers cut back on work hours or quit work altogether to make more time available for care. Advisors of those clients are going to see funds in the affected savings and retirement accounts decrease, and that can derail previously established retirement plans. Caregivers who help provide financial assistance for the care of loved ones estimate that they pay, on average, about \$10,000 a year out of their own pockets to help support the care recipient. They are shelling out money for everything from household expenses, personal items and transportation services, to payment for informal caregivers and care facilities. Where do these caregiving souls find the money? A lot of the time, they tap their retirement accounts. For example, more than half -- 62% -- said they paid for care with their savings and retirement funds. In addition, 38% reported that they reduced their contributions to their savings and retirement programs. So, they are spending from their nest eggs as well as not adding to their accounts. This plan is not likely to have

been the one they set up with their advisor. Some said they cut back on personal spending, too, with 45% saying they have reduced their base quality of living. Some cut back on hours of employment as well. Three-fourths (77%) said they had missed work in order to provide care. Approximately one-third said they provide 30 or more hours of care per week, and half of those individuals estimated that they lost around one-third of their income. Over a period of three years, which is widely considered the caregiving period, that is potentially a full year's, worth of income lost in the course of a single long-term care event. Then there is the personal toll. For instance, some caregivers report having experienced problems with personal health and well-being (44%); negative feelings like depression (43%); family issues (35%); and extremely high stress levels (33%). What the study did not say, but is implicit, is that those personal developments have a financial cost, too, assuming the caregiver makes the time to obtain professional care.

6. "I LOVE MY JOB, BUT I AM LEAVING": Nearly one out of two employees who said they are very satisfied with their organizations and their jobs (45% and 42%, respectively) are also looking to leave, according to Mercer. The survey also found that 37% of all workers -- regardless of their satisfaction level -- are seriously considering leaving their organizations, up from 33% of the workforce who were considering leaving in 2011. The findings are more pronounced for various demographic groups within the workforce. For example, 63% of senior managers surveyed are seriously considering leaving their current roles, compared to 39% of management-level employees and 32% of non-management workers. Older workers who face an array of family and financial commitments, say they are less likely to be looking. Only 29% of workers ages 50–64 are seriously considering leaving at the present time. But it is a different story with younger generations of workers, particularly Millennials, who bring a "here and now" philosophy to their careers. As a group, they seem to value accelerated career paths and diversity (in the workplace and the work itself) over job security and tenure. The new survey reflects these trends, noting that 44% of workers age 18–34 are seriously considering leaving their organization, compared to 37% for the overall US workforce, despite the fact that they are generally more positive about many aspects of work.

7. FUNDED FACTOIDS: Connecticut has a pension shortage that is larger than forty-seven other states, even though it has the highest wealth *per capita* in the United States (\$64,864). Here are the top ten states, ranked by pension funded status:

State	Pension obligations funded	Funded rank
• South Dakota	100.0%	1
• Wisconsin	99.9%	2
• Washington	98.7%	3
• North Carolina	96.0%	4
• Oregon	95.9%	5
• Tennessee	93.6%	6
• Idaho	92.7%	7
• Delaware	92.3%	8
• New York	88.3%	9
• Florida	86.6%	10

8. 45TH ANNUAL POLICE OFFICERS' AND FIREFIGHTERS' PENSION TRUSTEES' CONFERENCE: The 45th Annual Police Officers' and Firefighters' Pension Trustees' Conference will be held on November 17-19, 2015. You may access information and updates about the Conference, including area maps, a copy of the program when completed and links to register at the Radisson in Celebration, Florida. Please continue to check the FRS website for updates regarding the program at www.myflorida.com/frs/mpf. All police officer and firefighter plan participants, board of trustee members, plan sponsors and anyone interested in the administration and operation of the Chapters 175 and 185 pension plans should take advantage of this unique, insightful and informative program.

9. ON SECOND THOUGHT...MAYBE THEY WERE WRONG?: There will never be a bigger plane built -- a Boing engineer, after the first flight of the 247, a twin engine plane that held ten people.

10. TODAY IN HISTORY: In 1958, U.S. performs nuclear test at Nevada Test Site.

11. 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.

12. 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>.

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

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