



CYPEN & CYPEN
NEWSLETTER
for
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Never Forget September 11, 2001
and
Always Remember May 2, 2011

1. RESEARCH BURSTS FIVE COMMON RETIREMENT MYTHS:

Conventional wisdom has it that workers plan their retirement around the amount of money they have saved. But nearly half of American workers plan to stop working on a specific date, regardless of how much they have for retirement. This myth is one of several debunked

in new research from Fidelity Investments, reported in [plansponsor.com](https://www.plansponsor.com), which surveyed retirement savers and recent retirees on the nonfinancial factors that influence retirement decisions. Results of the survey contradict many commonly held beliefs about how people view retirement and what factors contribute to their decision to retire (or not retire). Here are the top five myths:

- **People will not retire until they have enough money.** One of the more surprising results from the research is that nearly all respondents do not link their retirement to their level of savings. When asked if time or money was more important in their decision to retire, results were surprisingly split: 49% indicated their retirement date is tied to a specific date, not to money or a specific level of savings. They want to ensure they have enough time to enjoy their retirement, and if necessary, plan to adapt their retirement lifestyle based on how much they have saved. The other 51% said their finances would determine when they retire, and that they want to have enough savings to enjoy their retirement.
- **Retirement means spending time with your spouse.** While a healthy percentage of men want to spend time with their wives (60%), a greater number of women are more interested in spending time with their grandchildren (70%) than with their husbands (43%).
- **Many retirees struggle to get by and live with regret.**

Despite the notion that today's retirees are unhappy and forced to live frugally, 82% of recent retirees believe they retired at the right time, and 85% say retirement is the most rewarding time of their lives.

- **People work in retirement because they have to.** When asked why they are working in retirement, 61% indicated that they like what they do, and 50% said feeling valued was an important reason to continue working in retirement.
- **Retirement is all about travel and hobbies.** While some retirees said they plan to volunteer and pursue activities they could not get to while they were working, 72% said their top reason to retire was to have more leisure time -- the freedom to do whatever they wanted, even if that meant simply relaxing and doing nothing.

2. PENSION ACCOUNTING RETURNS TO THE WILD WEST?: The pension accounting world before 1987 was a wild place, says ebnbenefitnews.com. The pre-1987 pension world posed problems through inconsistencies and potentially misleading reporting of pension accounting costs. Statement of Financial Accounting Standards No. 87 put an end to all the commotion, by standardizing rules for pension expense accounting. As a result, the last 35 years have been relatively peaceful. Unfortunately, new statements and interpretations are about to shatter that serenity. Plan sponsors may soon find themselves embroiled with actuaries and auditors in a

melee of expense reporting options, including:

- Redefining operating expense. Pension accounting cost has traditionally been reported by plan sponsors as an operating expense, similar to the cost of labor and equipment needed to run their business. This expense is not a monolithic entry, however. Rather, it has four major components:
 - Service cost: value of benefit accruals for employees during the year (zero for frozen plans).
 - Interest cost: expected growth of the liability due to the loss of discounting over the next year.
 - Amortization payment on accumulated gains and losses (due to interest rates, asset performance and demographic experience different from what was expected).
 - Expected return on plan assets (income offsetting other expenses).

Of these four items, only service cost has the compensation characteristics of an actual operating expense. The other components fall into net investment or re-measurement categories that are the result of economic factors outside of business operations. Recognizing this situation, the Financial Accounting Standards Board is currently considering a proposal to categorize only the service cost component as an operating expense, moving the other three entries to a separate line item. *Rating: Good.*

- Separate discount rate for service cost. Accounting liabilities are

the present value of expected benefit payments discounted to the measurement date using a discount rate, which FAS 87 suggests can be estimated by high quality bond yields. In the good old days, actuaries often chose a Moody's Aa rate rounded to the nearest quarter point as the discount rate, and auditors accepted this approach. But the rise of financial economics now demands it be defined as a single rate that produces the same liability as discounting cash flows along the length of a high-quality corporate bond yield curve. This single rate is then used to determine the plan's total liability and interest cost, as well as service cost. Financial economics' application to pension liabilities has spawned a cottage industry of experts pushing the boundaries of yield curve knowledge at reasonable hourly billing rates. These experts now understand benefit payments tied to service cost lie farther out on the curve, where spot rates are generally higher. So, they argue that the discount rate for the overall liability is too low to use for service cost, and, consequently, overstates it. A separate, usually higher, discount rate strictly for service cost would be more appropriate theoretically and would also reduce operating expense for non-frozen plans. *Rating:* Not necessarily bad.

- “Granular” interest cost. Interest cost used to be a very simple concept -- multiply the liability by the discount rate to reflect the passage of time. But yield curve thinking is now challenging even this simple idea. A large defined benefit plan sponsor

recently adopted a “granular” interest cost method. Rather than multiplying the total liability by a single discount rate, this granular approach multiplies the liabilities attributable to each single future year by the corresponding spot rate on the yield curve. Each “grain” of interest cost is then added to obtain the total. While this calculation may sound equivalent to the current method, the spot rate approach tends to produce lower interest cost in normal yield curve environments. The spot rate approach implicitly assumes the effective discount rate will increase over the next year. The assumed actuarial gains from the rising rates offsets interest growth of liabilities. These interest cost “savings” do not just disappear. They become structural actuarial losses to the plan. The plan sponsor recognizes these losses each year, so there is no impact to their overall expense. Most plan sponsors, however, use an accounting method that defers the majority of losses, only recognizing a small fraction each year. For them, this method would provide lower overall accounting expense. But it also risks building unnecessarily large unrecognized losses, potentially inhibiting future business transactions or plan terminations. All of these things happen at a time when unrecognized net losses are already at historically high levels.

Rating: Ugly.

3. TEN STATES WITH THE LOWEST FINANCIAL WELL-BEING:

We recently looked at states with the highest financial well-being --

[\(see C & C Newsletter for October 15, 2015, Item 6\)](#). The following are from a report reviewed in ebnbenefitnews.com:

- **Mississippi.** Mississippi, the Magnolia State, is the only state to rank in the lowest 5th quintile in all categories. [What about football?]
- **Tennessee.** The Volunteer State is the only state in the bottom five to mark one category above the 4th quintile, ranking No. 29 in terms of residents who have worried about finances in the past week.
- **Georgia.** The Peach State is close to Louisiana, coming in 34th in comparative standard of living and ranking in the lower 5th quintiles in all other categories.
- **Louisiana.** People in the Bayou State are in the lowest quintile in all categories except for the comparative standard of living, where the state ranked No. 33.
- **Kentucky.** Residents in the Bluegrass State are 49th in two categories: having enough money for health care and worrying about money in the past week.
- **Alabama.** Alabama is on par with South Carolina, except in one category. The state ranked No. 24 in terms of the number of citizens who say they have had no money worries in the past week.
- **South Carolina.** South Carolina ranked in in the lowest quartile for all categories in the report except for comparative financial

standard of living, in which it took the 28th spot.

- **West Virginia.** The Mountain State ranked in the second quartile in terms of residents who feel they have enough money to do what they want.
- **Arkansas.** Arkansas ranks pretty flat across financial well-being for its citizens. The state ranked No. 33 in terms of how worried residents are about money and No. 32 in comparative standard of living.
- **North Carolina.** The Tar Heel State has made the top 10 list of states with poor overall financial well-being. The state did, however, make the 2nd highest quintile in compared satisfaction with the standard of living.

4. DIARY OF A (MAD?) ACTUARY: Retired Actuary Richard Berger has penned a personal history of his professional life, in The Society of Actuaries' *The Actuary*. The tagline sort of says it all: The Prevalence and Attractiveness of DB Plans Have Declined Over the Past 35 Years. What Does The Future Hold? The story begins when Berger, then a transit bus driver, took a pay-cut to become an actuary in 1978. A venture through time and comes right up through Berger's recent retirement. Here is a short conclusion:

The switch to a DC retirement system has its own well-known problems. Individual participants may not be temperamentally or intellectually prepared to be investment managers, and there is the

common failure to appreciate the necessity of beginning saving early in your career. Unfortunately, the funding flexibility that used to offset the fixity (yes, it is a word) of the DB promise has been replaced with funding rigidity. To revive the DB plan market, flexibility will have to be reintroduced, perhaps by allowing the benefit to be variable in reaction to investment returns or converting retirement plans into whole lifetime vehicles for a range of needs. The regulatory framework needs to be cut back and left alone for an extended period time. (Or allow plan sponsors to exit their DB plans if future changes prove burdensome). The future is likely to be different from what we can expect (ask any actuary!), but the likelihood is that there will be a role for actuaries in the DB world for quite a while. In addition, the supply of actuaries is likely to shrink as those who grew up with ERISA ride off into the actuarial sunset. No profession is a guarantee of employment and prosperity, so flexibility and adaptability are essential if you decide to be a DB actuary.

Read the entire article at:

<https://www.soa.org/search.aspx?searchterm=Richard+Berger>. Hey, Richard, now you can stop looking at your shoes.

5. TOP 25 MID-SIZE EMPLOYERS: From innovative work-life benefits to food delivery perks, these medium-sized employers are at the forefront of pioneering programs, landing them on Great Place to Work's list of 2015's top places to work. From ebnbenefitnews.com here are some of the reasons employees rated their employers so

high:

- **Intuitive Research and Technology.** Intuitive provides a generous allowance per year to each full-time employee to help pay for whatever voluntary benefit choices they make. The benefits allowance is paid out on a per-pay-period basis, and if it's not used for benefits, becomes additional income.
- **Atlassian.** Software company Atlassian covers 100% of employees' health insurance premiums for the entire family, keeping in line with the employer's "Play, as a team" value and culture, where everyone is supported.
- **ESL Federal Credit Union.** Year-round, ESL plans a wide variety of events and special activities specifically designed for employees to keep them informed and engaged. Some events are business-related; others are purely social (and open to family members).
- **4imprint, Inc.** Occasionally, employees need to deal with unexpected situations that require time off but they lack enough paid time-off to meet their needs. To help associates in this situation, 4imprint established a "Donate PTO Time" program that allows associates to donate a portion of their accumulated paid time-off to assist a co-worker in need.
- **Squarespace.** Website developer Squarespace presents new employees with welcome gift bags filled with various goodies ranging from branded moleskin notebooks, caramels made by a Squarespace customer based in Portland, and more.

- **Etsy.** Etsy covers 100% of employee premiums for standard medical and dental plans, including premiums for eligible dependents. Additionally, the employer provides employees around the world with an additional 40 hours of paid time-off to volunteer with an organization they're passionate about.
- **Assurance.** Each quarter Assurance employees each earn "chips" by completing activities such as submitting ideas to the suggestion box or referring a new client or employee. Each chip counts as a chance to spin the Assurance "Wang Chung Wheel" at quarterly Assurance Casinos for a chance to win up to \$300 cash.
- **Cirrus Logic.** The monthly "Cirrus Logic Rocks!" concert events held on the company's outdoor deck feature local musicians from Austin's great live-music scene.
- **Centro.** Centro flies all new hires to Chicago for a three-day new-hire orientation which includes dinner with an executive and a themed happy hour.
- **HubSpot.** Employee engagement and teamwork is fostered by sending workers to executive-hosted mystery dinners, where they only find out the day of the event who they are going with and where they are going.

The next 15 are: Peckham, Inc.; Hagerty; Holder Construction Company; Marco, Inc.; eVestment; Point B, Inc.; West Monroe Partners; Clif Bar & Company; Capco; Yext; American Transmission Company; EKS&H LLP; Walker & Dunlop; Xactly Corporation; Roth

Staffing.

6. FOUR REASONS WHY PLAN SPONSORS SHOULD CARE ABOUT OUTCOMES: Nevin Adams, of National Association of Plan Advisors, finds it obvious why participants have a vested interest (literally) in the retirement income -- outcome, really -- of their retirement savings plans. Here are four reasons why plan sponsors should care about outcomes.

- You want your employees to appreciate your benefit plans. If you are responsible for benefit plans in your organization, you have a very real interest in how your workforce (and management team) view those benefits.
- You do not want your employees worrying about their finances at work. Any number of workplace surveys bears out the impact that external concerns -- particularly, external financial concerns -- have on morale and productivity at work. These concerns do not even touch on the vulnerability to theft and misuse of organizational resources that can tempt financially vulnerable workers.
- You want your employees to retire on time. Workers who think they cannot afford to retire are likely to try to extend their working careers potentially complicating succession planning and your ability to attract or retain new talent.
- You want your plan to work. There are employers who only offer a workplace retirement plan because everybody else does, who

are willing to just “set it and forget it,” who, hearing that workers are not taking advantage of the benefit they worked so hard to set up, shrug and say “it is up to them.” But that is not you. Is it?

7. U.S. CONTINUES DECLINE IN GLOBAL PENSION INDEX

RANKING: The United States has continued its decline in the most recent ranking of the Melbourne Mercer Global Pension index, slipping from 13th place in 2014 to 14th in the 2015. This drop reflects a continuation from the 2013 ranking, where the US placed 11th among the 25 countries surveyed. Now in its seventh year, the MMGPI measured 25 retirement income systems against more than 50 indicators under the sub-indices of adequacy, sustainability and integrity. The US retirement system continues to rank in the middle of the pack. Concerns over the adequacy of the typical level of benefits provided under the US system contribute to the lackluster score. The lack of employer-provided supplemental retirement benefits for many Americans, and the relatively low labor force participation rates of older workers are also contributing factors to the US ranking. There has been a series of regulatory changes to address these issues, but additional action could improve the adequacy and sustainability of the US system. The MMGPI acknowledges that there is room for improvement in all countries’ retirement income systems. Suggested measures to improve the United States’ system include:

- Raising the minimum pension for low-income pensioners.
- Adjusting the level of mandatory contributions to increase the net replacement for media-income earners.

- Improving the vesting of benefits for all plan members and maintaining the real value of retained benefits through to retirement.
- Reducing pre-retirement leakage by further limiting the access to funds before retirement.
- Introducing a requirement that part of the retirement benefit must be taken as an income stream.

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?: X-rays will prove to be a hoax. Lord Kelvin, President of the Royal Society, 1883.

10. TODAY IN HISTORY: In 1946, John F. Kennedy (Democrat,

Massachusetts) elected to U.S. House of Representatives.

11. TODAY IN HISTORY (CORRECTED): In our October 29, 2015 Newsletter (see Item 11) we said that in 1929, “Black Tuesday” Stock Market crashes triggers “Great Depression.” One of our scholarly readers, who regularly correct our Newsletter informed us that Black Monday refers to Monday, October 19, 1987, when stock markets around the world crashed, shedding a huge value in a very short time. The crash began in Hong Kong and spread west to Europe, hitting the United States after other markets had already declined by a significant margin. The Dow Jones Industrial Average (DJIA) fell exactly 508 points to 1,738.74 (22.61%). In Australia and New Zealand, the 1987 crash is also referred to as "Black Tuesday" because of the time zone difference. The terms Black Monday and Black Tuesday are also respectively applied to October 28 and October 29, 1929, which occurred after Black Thursday on October 24, which started the Stock Market Crash of 1929.

Of course, the term “Blue Monday” refers to Fats Domino’s hang over.

12. 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.

13. 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>.

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

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