



CYPEN & CYPEN
NEWSLETTER
for
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Never Forget September 11, 2001

and

Always Remember May 2, 2011

**1. FOR THE PUBLIC: RESPONDING TO AN ACTIVE SHOOTER
CRISIS SITUATION:** This video, recently produced by the Houston

Mayor's Office of Public Safety and Homeland Security, dramatizes an active shooter incident in the workplace. Its purpose is to educate the public on how to respond during such an incident. Warning -- the initial sequence in this video may be disturbing:

<https://www.fbi.gov/about-us/cirg/active-shooter-and-mass-casualty-incidents/run-hide-fight-video>. We give thanks to Kathy Adams, Palm Bay Police & Firefighters' Administrator, for bringing this informative piece to our attention.

2. CITY PENSIONERS GET 13TH CHECK: More than \$6 million has been distributed to retired San Diego city employees in the form of a "13th check," beyond their usual 12 monthly payments, making this year's holiday bonus the largest payment in the three-decade-old practice, according to sandiegouniontribune.com. A review of pension data found that retirees have received \$95.8 million in such bonus checks since 1984. This year more than 8,800 eligible recipients, also a record high, received a check that averaged \$698 per person. Shortly after its inception, the policy resulted in bonus checks the city claimed were higher than anticipated. City officials scrambled to limit how much each person could receive, which resulted in a legal battle and subsequent settlement of nearly \$10 million. The settlement also rescinded the 13th check and several other benefits for workers hired after June 30, 2005, but the program continues for people hired before that date. Four of the five retirees who received the largest checks this year had annual pensions of less than \$20,000. Many people really look forward to the payment to supplement to what they

are receiving regularly, but it does not come every year. This system had earnings of over \$300 million, which was enough to trigger the payment. The 13th check is a tradition at many public pension systems across the nation, but not at the San Diego County. What is the big deal over a check that averages less than \$700.00 a person?

3. HATCH INTRODUCES BILL THAT WOULD CHANGE STATE AND LOCAL GOVERNMENT PENSION PLANS:

Senator Orrin Hatch (R-Utah), has introduced the Puerto Rico Assistance Act of 2015 (S. 2381). The bill is generally intended to address Puerto Rico's fiscal challenges, but it also includes provisions that would have significant consequences for public retirement systems outside of Puerto Rico. Specifically, the bill includes the Public Employee Pension Transparency Act (H.R. 1628, "PEPTA"), which would impose new disclosure obligations on state and local governmental plan sponsors. It also includes a portion of Hatch's Secure Annuities for Employees ("SAFE") Retirement Act (S.1270) that would create a new type of plan design for state and local government retirement systems. One reason the pension provisions may have been added is that Puerto Rico's debt crisis has been exacerbated by severely underfunded plans for Puerto Rico public employees. The proposal which was reviewed by Groom Law Group, would require sponsors of state and local governmental pension plans to file with the Treasury Department a yearly report setting forth:

- The plan's funding status;

- Contributions made to the plan that year;
- Projections, for each of the following 20 years, of (1) the amount of annual contributions, (2) the fair market value of plan assets, (3) current liability, (4) the funding percentage and (5) other figures specified by Treasury regulation, as well as a statement of the assumptions and methods used in reaching these figures;
- A statement of the actuarial assumptions used for the plan year;
- The number of participants who are active, retired or separated from service and receiving benefits, and retired or separated from service and entitled to future benefits;
- The plan's investment returns for the plan year and preceding five plan years;
- A statement of the degree to which the plan sponsor believes unfunded liabilities will be eliminated; and
- A statement of the amount of pension bonds outstanding.

The calculation of liabilities would generally be required to be based off of the U.S Treasury obligation yield curve, which would generally be a lower rate than under the new GASB rules, thus normally presenting a higher amount of liabilities than under GASB accounting. The Act would create a new type of pension plan, the "Annuity Accumulation Retirement Plan," available to sponsors of state and local governmental plans.

4. IRS PROVIDES OPTIONAL 2016 STANDARD MILEAGE RATES

FOR TAXPAYERS TO USE IN COMPUTING DEDUCTIBLE COSTS OF OPERATING AN AUTOMOBILE FOR BUSINESS,

CHARITABLE AND OTHER PURPOSES: Internal Revenue Service has provided notice of the optional 2016 standard mileage rates for taxpayers to use in computing the deductible cost of operating an automobile for business, charitable, medical or moving expense purposes. The notice also provides the amount taxpayers must use in calculating reductions to basis for depreciation taken under the business standard mileage rate, and the maximum standard automobile cost that may be used in computing the allowance under a fixed and variable rate (FAVR) plan. Beginning on January 1, 2016, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be

- 54 cents per mile for business miles driven, down from 57.5 cents for 2015;
- 19 cents per mile driven for medical or moving purposes, down from 23 cents for 2015; and
- 14 cents per mile driven in service of charitable organizations.

The business mileage rate decreased 3.5 cents per mile and the medical, and moving expense rates decrease 4 cents per mile from the 2015 rates. The charitable rate is based on statute. The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs. For purposes of computing the allowance under a FAVR plan, the standard automobile

cost may not exceed \$28,000 for automobiles (excluding trucks and vans) or \$31,000 for trucks and vans. The notice is effective for deductible transportation expenses paid or incurred on or after January 1, 2016, and mileage allowances or reimbursements paid to an employee or to a charitable volunteer (a) on or after January 1, 2016, and (b) for transportation expenses the employee or charitable volunteer pays or incurs on or after January 1, 2016. Notice 2016-1.

5. FLORIDA LEGISLATOR WILL PROPOSE SHIFT FROM

PENSION PLAN: House Speaker Steve Crisafulli said he will introduce a bill to enroll new state workers into the investment plan automatically if they do not select the more popular pension plan, according to Naples (Florida) *Daily News*. The plan, different from an earlier one that would have closed the state retirement system to new employees, is intended to reduce the number of workers included in the state pension plan. In the past, the Senate has opposed changes to the state plan. The Florida Retirement System serves 621,000 people -- mostly teachers, along with firefighters, county agency staff and state workers. About 346,000 more are receiving retirement benefits. FRS is 86.6% percent funded, above the 80% level state economists have defined as healthy. Crisafulli said the idea of a pension plan stems from the days when employees would stay with a job for decades. These days, he says, state workers stay on the job for an average of six years. One of the reasons some Republicans have argued a transferable 401(k) investment account that follows the employee makes more sense. To us, it looks another end run. If the

move is successful, “education” of new hires will be extremely critical.

6. MOODY’S SAYS INTEREST RATE HIKE COULD LIFT

PENSIONS TO FULL FUNDING BY 2018: The first of what is expected to be a series of interest rate increases by the U.S. Federal Reserve on December 16, 2015 should start to help defined benefit retirement plans recover from years of underfunding, according to a blog on thompson.com. Pension funding levels for about 670 rated U.S. non-financial corporate pension liabilities remain below the level of 80%, but if interest rates move higher, as Moody’s expects, and asset returns remain constant, pension plans could reach fully funded status in 36 months. Since 2008, pension benefit obligations have increased significantly, with discount rates being a major contributing factor. Despite asset returns averaging an impressive 10% per annum since then, Moody’s believes the funding status of U.S. non-financial corporate pension plans will end this year at 78%. That level is virtually unchanged from December 2008, at the start of the global financial crisis. Between 2008 and 2014, pension discount rates fell 250 basis points. DB plans struggle to maintain required funding levels amid low interest rates, and many companies have had to inject financial reserves into their plans to keep from falling into underfunded status, traditionally regarded as a ratio below 80%. Plans with assets below that level may have trouble meeting obligations to retirees and other beneficiaries, or face benefit restrictions established by the Pension Protection Act of 2006. The Federal Reserve voted unanimously to raise interest rates by a quarter point, marking the first

increase in more than nine years. The bank raised its fed fund rates to a range of 0.25% to 0.5%, ending an unprecedented seven-year run of near-zero interest rates. The board of directors also raised the discount rate to 1% from 0.75%. Moody's said projected benefit obligations of plans sponsored by its rated issuers have climbed by \$703 billion to an estimated \$2.1 trillion by the end of 2015. The agency estimated that \$342 billion of the increase was driven by lower discount rates in recent years.

7. PRIVATE SECTOR CRITICIZES LABOR PROPOSAL TO LET STATES RUN RETIREMENT PLANS:

According to a blog on thompson.com, the U.S. Department of Labor laid the groundwork for states to run ERISA-covered auto-enrollment individual retirement accounts and multi-employer retirement plans for people without workplace savings options, issuing [proposed rules](#) and an [interpretive bulletin](#) for that purpose. The so-called open MEPs give employers that do not want to offer their own 401(k) plan a way to join with other companies to offer a retirement plan to their workers. The announcements advanced requests from the Obama administration for solutions to American workers' lackluster retirement savings. But the proposed rules' comment period, ending January 19, 2016, already has brought criticism of an unfair advantage over private-sector IRAs and other plans that seek the same retirement assets. The interpretive bulletin clears previous prohibitions on employers in different industries taking part in MEPs. As if the states did not have enough on their plate.

8. INTEREST RATES REMAIN THE SAME FOR THE FIRST

QUARTER OF 2016: The Internal Revenue Service announced that interest rates will remain the same for the calendar quarter beginning January 1, 2016, as they were in the previous quarter. The rates will be:

- 3% percent for underpayments;
- 5% percent for large corporate underpayments; and
- 0.5% percent for the portion of a corporate overpayment exceeding \$10,000.

Under the Internal Revenue Code, the rate of interest is determined on a quarterly basis. For taxpayers other than corporations, the overpayment and underpayment rate is the federal short-term rate plus 3 percentage points. Generally, in the case of a corporation, the underpayment rate is the federal short-term rate plus 3 percentage points and the overpayment rate is the federal short-term rate plus 2 percentage points. The rate for large corporate underpayments is the federal short-term rate plus 5 percentage points. The rate on the portion of a corporate overpayment of tax exceeding \$10,000 for a taxable period is the federal short-term rate plus one-half (0.5) of a percentage point. The interest rates are computed from the federal short-term rate determined during October 2015 to take effect November 1, 2015, based on daily compounding. IR-2015-138

9. TEN BEST CITIES FOR LAWYERS: Sparefoot.com (who else)

recognizes that attorneys protect rights and seek justice for their clients from coast to coast. The financial burden that attorneys take on to become defenders of the law is huge -- the average law school graduate has \$84,000 in debt if he goes to a public school and more than \$122,000 if he goes to a private one. Thus, lawyers need to consider carefully which market they will choose to launch their career. So, where can a legal professional get the most bang for his buck? SpareFoot's survey looked for the ten metro areas with the most job listings for lawyers. Then, the cities were ranked according to: job availability, average annual salary, median home price and median annual rent. Here are the results:

- **Atlanta, Georgia.** It helps if you like your waffles with fried chicken and your tea with heaping spoonfuls of sugar. Atlanta topped the list thanks to strong average salaries and the most affordable rents. Average annual salary: \$99,000.
- **Houston, Texas.** Similar to Dallas, Houston's big draw is affordability. Houston ranks higher than its Texas neighbor thanks to average pay and job availability. Average annual salary: \$90,000.
- **Chicago, Illinois.** The Windy City ranked in the top 5 on all factors. Chicago is a good choice for budget-conscious lawyers. Average annual salary: \$95,000.
- **Boston, Massachusetts.** Bean Town lawyers make an average salary that is second best on the list. And the median

priced home will only take up a fifth of the average income. Average annual salary: \$100,000.

- **Washington, DC.** The nation's capital ranked high on the list for job availability. However, housing is a bit pricier in the metro area compared to others, especially if you plan to rent. Average annual salary: \$99,000.
- **New York, New York.** The Big Apple dominates when it comes to percent share of openings for lawyers; positions at New York law firms took up more than 29% of the total job listings in cities on the list. However, you might have to cross the tunnel into New Jersey for the affordable rent. Average annual salary: \$96,000.
- **Dallas, Texas.** Dallas attorneys might not take home as much as most of the other cities on the list, but at least it does not cost much to rent or buy a home. Rental rates only take up less than 20% of a lawyer's annual salary. Plus, the BBQ is delicious. Average annual salary: \$81,000.
- **San Francisco, California.** Lawyers in San Francisco are the highest paid according to job listings on Indeed, with an average salary of \$107,000. The downside is that housing costs will absorb a big chunk of that pay bump, with the city coming in last place on for both measures of housing affordability. Average annual salary: \$107,000.

- **Seattle, Washington.** Seattle had the lowest share of jobs among the ten cities with the most attorney job listings. While it might be more competitive to find a job here, it is more affordable than LA or San Francisco -- just do not forget to pack your umbrella. Average annual salary: \$86,000.
- **Los Angeles, California.** Lawyers in LA enjoy year round sunshine, kale smoothies and occasionally getting B-listers out of a DUI. While the City of Angels may rank towards the bottom of our list in terms of average salary and housing affordability, the lifestyle is a major perk -- especially if you are into movie premieres, yoga and celebrity chefs. Average annual salary: \$85,000.

10. SO YOU THINK YOU KNOW EVERYTHING: If you are an average American, in your whole life, you will spend an average of 6 months waiting at red lights. Beep. Beep.

11. TODAY IN HISTORY: In 1943, FDR appoints General Eisenhower supreme commander of Allied forces.

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.