



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

1. FLORIDA LEAGUE OF CITIES WANTS TO CHANGE

FIREFIGHTER BILL: The Florida League of Cities agenda for the 2016 legislative session includes scaling back a disability presumption for firefighters and paramedics, according to the Tallahassee *Democrat*. The League considers SB 456 by Senator Jack Latvala, R-

Clearwater, a big unfunded mandate on local governments. It would establish a cancer diagnosis as work related for more than 41,500 firefighters, qualifying them for workers' compensation and disability pension benefits. The League said the change would cost municipalities a lot of money. Further, the League believes a disability presumption is among terms of employment negotiated between employer and employee, and should not be mandated on cities by the state. However, the League realizes the proposal is backed by a powerful lawmaker, but stressed the League will be diligent in its opposition. We shall see.

2. PALM BEACH TOWN RETHINKS PENSION REFORMS AFTER EXODUS OF PUBLIC SAFETY WORKERS:

The city council's thinking in 2012 was that other municipalities would follow Palm Beach, Florida's lead and conclude that their pension benefit levels were not financially sustainable. According to National Association of State Retirement Administrators that has not happened. In most cases, the departing employees are getting jobs with other departments in South Florida, where the market is competitive. Of all the changes made to the pension benefits, the most unpopular with public safety employees was the reduction of the multiplier and an increase in the eligibility age to collect pensions. The town has continued to offer its traditional defined benefit plan while introducing a new defined contribution plan in which the town and employees pay into individual retirement accounts.

3. YOUR 401(K) IS NO REPLACEMENT FOR A PENSION: *Daily Kos* asks us to remember how 401(k) accounts were going to be the key to the Ownership Society. We would all be magically rich, because our money would be in the stock market, not stuck in some boring pension. Well, now, new data show that in 2014, distributions from 401(k)s and similar accounts (including IRAs, which are mostly rolled over from 401(k)s) came to less than \$1,000 per year per person aged 65 and older. On the other hand, seniors received nearly \$6,000 annually on average from traditional pensions. Pension benefits and retirement account distributions are both concentrated among upper income seniors, but far more seniors rely on pensions as a significant source of retirement income. So, today, we read headlines like “401(k)s are a negligible source of income for seniors.” You had better be big enough to live on the account itself for as long as you plan to live, because you are not getting much income from it. Think about these numbers and think about how many people you know whose jobs offer pensions as compared to 401(k)s (as compared to no retirement program at all). Think about how many people you know who are going to be completely screwed at this rate. We are not on track for an Ownership Society, we are on track for an elder poverty society.

4. MILLIMAN 2015 PUBLIC PENSION FUNDING STUDY: The Milliman Public Pension Funding Study annually explores the funded status of the 100 largest U.S. public pension plans. Milliman reports the plan sponsor’s own assessment of how well funded a plan is. It

also recalibrates the accrued liability for each plan based on an independent assessment of the expected return on each plan's investments. This process allows for an independent determination of funded status without reflecting any bias or lag that may exist in the plan sponsor's own return expectations. Liability is measured on the same basis used by plan sponsors looking systematically to fund their plans over a long time horizon as a going concern. There are other measures of liability that may be used for financial reporting purposes, for determining the cost of settling liabilities in the near-term based on current market conditions or on the basis of discounting future benefits using "risk-free rates," as employed in some studies of the health of public pension plans. Here are some of the highlights:

- Strong market performance through 2014 has led to an increase in overall reported funded ratios, from 70.7% to 75.0%, on a market value of assets basis.
- After several years of strong returns, the flat market to date during 2015 will erode funded ratios, although the impact will not be fully recognized for several years in most plan sponsors' funding policies.
- A significant headwind for funded status is generated by the continued decline in market consensus views on long term return expectations; lower return assumptions mean higher liabilities.
- For the first time, retired and inactive members outnumber

active members.

5. FIVE REASONS WHY PUBLIC EMPLOYEES SHOULD ENJOY

DB PENSIONS: Writing in the November 15, 2015 Florida Public Pension Trustees Association Newsletter, Public Relations Consultant Susan Marden said there are many good reasons why public employees should enjoy the security of a defined benefit pension, despite private sector trends. Here are her top five:

- Taxpayers have been misled to believe they are paying for overly generous pensions they cannot afford. Wrong. Taxpayers do not pay for pensions, they pay for compensation to the people who patrol their streets, fill the potholes, file the bills and put out the fires. A very small portion of those dollars -- usually less than 3% of a total municipal budget -- helps fund a pension plan, which is part of the employees' deferred compensation, and into which they typically deposit anywhere from 3-10% of their own wages. In fact, as much as 60% [we hear 75%] of every retirement check is paid for with investment earnings, not taxpayer dollars. The average annual retirement benefit for municipal workers in Florida is about \$23,000, and many first responders are not eligible to receive Social Security. Do not forget that public employees pay the same state and local taxes everyone else pays.
- Public plans are uniquely qualified to offer guaranteed benefits, because they operate in perpetuity. While the size or makeup of

the public sector workforce may experience some of the same stressors that private corporations experience in terms of layoffs or cuts to budget, municipalities will not go out of business. New hires always will be needed to replace retirees, and those new hires will continue to pay into the fund.

- Public pension plans offer unparalleled efficiencies. They consist of a large pool of workers of various ages, spread across mortality and income tables, making it possible for investors to synergize. DB plans can pursue the most profitable investment strategies at all times, while individual investors will have to start pulling money out of the market as they near retirement age. Public pension plans maximize earnings using their commensurately larger investment pool. Perhaps most importantly, DB plans are operated by a trustee board of directors with fiduciary responsibility and a staff of investment professionals most likely to achieve profitable outcomes.
- It recently was reported by Boston College Center for Retirement that 401(k), or defined contribution accounts, can provide returns equivalent to the benefits received by individuals receiving retirement checks from a DB plan, prompting some to shout, "Aha!" But a close look at the data also shows that those results were true for individuals of higher wealth who were most likely to invest generously, regularly and wisely in their individual DC accounts. Meanwhile more than 1/3 of American workers have no access to a retirement plan of any kind. In

other words, the rich get richer. The Federal Reserve puts the median American household income in 2013 (the most recent year for which numbers are available) at \$51,939; a private research firm put the 2013 number at \$53,891. Simple math reveals that such small investors may earn comparatively on the dollar when they invest, but they will not have enough dollars to get the job done, while public retirement plans pool resources to earn and deliver commensurately more.

- There are few jobs in the private sector upon which honestly to compare wages, but pay has not historically been at the top of the benefits pyramid for public employees. Nonetheless, competition for that reliable and secure public sector job makes public employment in many ways more competitive than private sector opportunities. First responders have no peer and executive/administrative public workers are often more highly educated, making their pay relatively lower than their private sector peers. [There are studies demonstrating that fact.] Public system job trajectories are slower and shallower than in the private sector, so over the life of a career, the benefits are really a “thing.”

6. RETIREMENT CRISIS STEMS FROM BAD POLICIES: Based on 2013 data, more than half of all working-age households were expected to fall short of maintaining their living standards in retirement, up from less than one-third just three decades before. This growing retirement insecurity follows past policy decisions that have

commonly exposed people to more risks, just as labor and financial market risks became more pronounced. Policy failed to help people build sturdy life rafts, just as the perfect storm went underway. In other words, it is not you. It is policy makers who created the retirement crisis and it is incumbent on policy makers to solve this crisis. Yet, policy makers have been noticeably absent from the conversation, leaving many Americans to worry about their retirement on their own. The reality is that, when American families should be planning and saving for their future, instead they are worried about making sure they have enough to pay for their bills right now. These worries are especially acute during economically weak and uncertain times, and saving for retirement amid massive labor and financial market volatility poses an almost insurmountable challenge for people. Over the past three decades, long-term unemployment has gone up, earnings have become less stable and employers have cut back on key benefits. Meanwhile, many of these labor-market risks have regularly materialized when the stock market went through massive ups and downs. The fundamental problem is that, over these past three decades, policy makers have increasingly expected households to navigate these choppy waters on their own. The article, which appeared in marketwatch.com, found five shortcomings that have weakened protections for savings in a brewing perfect storm of labor- and financial-market risks.

- Policy makers have lowered the risk protections from Social Security and defined-benefit pensions. They have, for instance,

raised the retirement age for Social Security and accelerated the decimation of defined-benefit pensions. Congress has instead encouraged the proliferation of 401(k)s and IRAs, which offer fewer risk protections, as replacements.

- The tax code offers the least help to save for retirement to those who need help the most, especially lower-income earners who do not work for employers that offer retirement benefits.
- Proliferation of savings incentives has made saving for retirement unnecessarily complicated, often deterring people from saving more.
- Congress has effectively made employers gatekeepers in granting access to secure retirement by, for example, favoring 401(k)s over IRAs in terms of how much money people can save. As private-sector employers continue to cut back on offering retirement benefits to employees, relying on employers to help people save more works for fewer and fewer people.
- Policy makers have turned a blind eye to people's need for more risk protections among ever-riskier labor and financial markets. Risk protections in retirement savings are an afterthought and, as a result, people can lose massive amounts of their savings retirement income when unemployment goes up, wages fall, benefits disappear, and stock and housing markets burst. And the chances of bad things happening have

only increased over time.

Addressing the crisis is straightforward. Policy makers need to update Social Security by adding a meaningful minimum benefit, support defined-benefit pensions by resisting the urge to create even more uncertainty for employers, create and expand tax benefits for lower-income earners, and simplify savings by streamlining rules and making many savings decisions automatic. Policy makers also need to establish more opportunities for people to save outside of the employer-employee relationship, and should make risk protections an integral part of saving for retirement by disclosing financial risks in savings in an easy-to-understand way. The combination of these small steps will likely have a major impact on people's retirement security.

7. LOANS OFTEN NECESSARY BUT SELDOM BENEFICIAL: An analysis from Fidelity explores the many long term pitfalls and few short term benefits of taking a loan from a DC retirement account. Earlier this year Fidelity reviewed loan and withdrawal activity among 21,200 retirement plans and 13.5 million participants, finding loans are often viewed as an unavoidable financial necessity for those taking them. Overall about one in 10 plan participants elected to take a loan last year, the research shows, with an average amount around \$10,000. Hardship withdrawals occur even less frequently -- drawn by about 2.2% of participants during the year-long sample period. Most often participants taking a hardship withdrawal cited medical

expenses (19%) or the need to avoid foreclosure on a home (34%). Part of what makes taking loans harmful for the long term is that those who take one loan are likely to take at least one more in the future. While 50% of 401(k) borrowers take just one loan, the other 50% borrow multiple times, and 10% go on to take a hardship withdrawal. Research published by the National Bureau for Economic Research, which suggests when a plan sponsor permits multiple rather than only one loan, each individual loan tends to be smaller, but the probability of plan borrowing nearly doubles and the aggregate amount borrowed rises by 16%. This circumstance suggests employees perceive that easier loan access is actually an encouragement to borrow. Perhaps unsurprising, borrowers tend to save less on average over time after their first loan. For example, fully one in four borrowers reduced their savings rate within five years of taking a loan, generating \$180 to \$690 less per month in anticipated annuitized retirement income. Even more troubling, 15% of those who take a loan go on to stop saving altogether within a fairly short period of time. Bad scene.

8. MORTALITY MEETS VOLATILITY IN PENSION MARKET: In this world nothing can be said to be certain, except death and taxes. According to *Employee Benefit News*, America's first blogger, Benjamin Franklin, made this observation two hundred and twenty five years ago, and it has held true these many years. With the latest developments regarding mortality assumptions, however, Franklin may want to consider a rewrite: the new world of pension mortality has made death anything but certain. ([See C & C Newsletter](#)

[for November 5, 2015, Item 2](#)). Until recently, most mortality tables were static, meaning there were no explicit projections of future mortality improvements. These static tables were updated about once a decade, so mortality assumptions in most years introduced little uncertainty to liability calculations. The Pension Protection Act of 2006 greatly accelerated the use of simple generational mortality assumptions. Generational assumptions are actually a combination of a base table and an improvement scale. They, too, are very predictable from year to year between updates of the underlying data. A base mortality table assigns a probability of death at each age. While an improvement scale determines how quickly future years' death probabilities will decline (usually), effectively estimating the impact of future longevity improvements. The longer a pensioner is assumed to live, the more benefits he will be expected to receive, and the higher the associated liabilities recognized by the plan sponsor.

9. WHO BENEFITS FROM THE U.S. RETIREMENT SYSTEM?:

Investment Company Institute asks and answers the question. A new study analyzes the benefits of the U.S. retirement system as a whole, including both tax deferral and the Social Security system, and finds that the benefits of the U.S. retirement system are progressive. In other words, as a percentage of their lifetime earnings, lower earners receive more in lifetime benefits from the combination of Social Security and tax deferral than higher earners receive. Here are some key findings:

- When evaluating the U.S. retirement system, it is important to assess both the Social Security system and tax deferral. In combination, the benefits of the two programs are progressive.
- Policy discussions of tax deferral often focus on the reduction in taxes enjoyed by workers and ignore the higher taxes these workers will pay during retirement.
- Contrary to conventional wisdom, the marginal benefits of tax deferral (the benefits of deferring an additional \$1 of compensation) are higher, on average, for the lower-earning workers analyzed in this study than they are for the higher-earning workers.
- Benefits of tax deferral increase with lifetime earnings because of the design of the Social Security system, not because of the design of the income tax.
- The incentive to save in the current tax code is not “upside down.”
- The focus of policy discussions to microprogressivity (the effect of specific tax code provisions on progressivity) is misplaced.
- By essentially allowing workers to “income average” over a lifetime, tax deferral arguably makes the tax system more -- not less --fair.
- The most prominent reform proposals for retirement plans would make the tax code less fair.
- Proposals to limit the up-front benefits of tax deferral would make the tax code more complex.

10. EQUITY PERFORMANCE EXTRACTS \$64 BILLION FROM

WORLD'S LARGEST PENSION FUND: The world's biggest pension fund posted its worst quarterly loss since at least 2008, after a global stock rout in August and September wiped \$64 billion off its investments. According to Bloomberg, the 135.1 trillion yen (\$1.1 trillion) Government Pension Investment Fund lost 5.6% last quarter as the value of its holdings declined by 7.9 trillion yen. The percentage drop is the biggest since comparable data starting in April 2008. The fund lost 8 trillion yen on its domestic and foreign equities and 241 billion yen on overseas debt, while Japanese bonds handed GPIF a 302 billion yen gain. The loss was GPIF's first since doubling its allocation to stocks and reducing debt last October, and highlights the risk of sharp short term losses that come with the fund's more aggressive investment style. Fund executives have argued that holding more shares and foreign assets is a better approach as the Prime Minister seeks to spur inflation that would erode the purchasing power of bonds. Ah-so.

11. ANNUAL STATISTICAL REPORT OF THE SOCIAL SECURITY DISABILITY INSURANCE PROGRAM, 2014:

Since 1956, the Social Security program has provided cash benefits to people with disabilities. This annual report provides program and demographic information about the people who receive those benefits. The basic topics covered are

- beneficiaries in current-payment status;

- workers' compensation and public disability benefits;
- benefits awarded, withheld, and terminated;
- disabled workers who have returned to work;
- outcomes of applications for disability benefits; and
- disabled beneficiaries receiving Social Security, Supplemental Security Income, or both.

Here are some highlights:

- Disability benefits were paid to just over 10.2 million people.
- Awards to disabled workers (778,796) accounted for 90% of awards to all disabled beneficiaries (869,371).
- In December, payments to disabled beneficiaries totaled more than \$11.4 billion.
- Benefits were terminated for 779,229 disabled workers.
- Supplemental Security Income payments were another source of income for about one out of seven disabled beneficiaries.
- Workers accounted for the largest share of disabled beneficiaries (87.2%).
- Average age was 53.
- Men represented less than 52%.
- The largest category of diagnoses was diseases of the musculoskeletal system and connective tissue (31.2%).
- Average monthly benefit received was \$1,165.39.
- Supplemental Security Income payments were another source of income for about one out of eight.

SSA Publication No. 13-11826 (November 2015).

12. NFL WANTS PLAYERS FIT FINANCIALLY: For the past four years, the NFL and the NFL Players Association have worked together to build a comprehensive wellness program that would help retired football players better transition into a life without football, both financially and emotionally. *Employee Benefit Adviser* says The Trust, which officially launched in 2013, is an extensive financial wellness program that includes education, lifestyle, health and career services. The organization projected it would help 500 players the first year, but enrolled 1,000, and is on track to enroll another 1,000 this year. Players enroll in the program, and are assigned to a case manager who identifies the key issues they are facing. Once those are identified, The Trust and its service partners devise a customized game plan that will give the player a sense of where he is financially, where he should be and how to get there. What makes the program work so well is that The Trust has built a community for those retired players where they share their personal stories with each other and mentor others who are in need of assistance. The average professional football player is in the league for three to four years, and the biggest questions they have when they retire are: what do I do next, and how do I make my money stretch after I am not playing football anymore? The most popular financial topics addressed through the program so far have been estate planning, how to set up college funds for kids, how to start a business and how to invest. Many former players are trying to understand what modifications they

need to make post-career from a lifestyle standpoint so they can sustain long-term financial health. The Trust offers not only financial help, but advice on health, fitness, relationships, mental health, new careers and going back to school. Many players who retire from professional football, sometimes earlier than expected due to injuries, have to deal with mental health issues. They build up a vision of who they are based on their participation in the NFL, but when the job ends, they can be left feeling bereft and uncertain about what comes next. And, for most players, the NFL is their first experience with having to manage money.

13. ON SECOND THOUGHT...MAYBE THEY WERE WRONG?: The wireless music box has no imaginable commercial value. Who would pay for a message sent to no one in particular? – Associates of David Sarnoff, responding to the latter's call for investment in the radio in 1921.

14. TODAY IN HISTORY: In 1944, Hungarian death march of Jews ends.

15. 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.

16. 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>.

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

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