



CYPEN & CYPEN
NEWSLETTER
for
MAY 5, 2016

Copyright, 1996-2016, all rights reserved

Stephen H. Cypen, Esq., Editor

Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. WHAT YOU NEED TO KNOW IF YOU GET A LETTER IN THE MAIL FROM THE IRS: Each year, the Internal Revenue Service mails millions of notices and letters to taxpayers for a variety of reasons. If you receive correspondence from IRS:

- Do not panic. You can usually deal with a notice simply by responding to it.

- Most IRS notices are about federal tax returns or tax accounts. Each notice has specific instructions, so read your notice carefully because it will tell you what you need to do.
- Your notice will likely be about changes to your account, taxes you owe or a payment request. However, your notice may ask you for more information about a specific issue.
- If your notice says that the IRS changed or corrected your tax return, review the information and compare it with your original return.
- If you agree with the notice, you usually do not need to reply unless it gives you other instructions or you need to make a payment.
- If you do not agree with the notice, you need to respond. Write a letter that explains why you disagree, and include information and documents you want the IRS to consider. Mail your response with the contact stub at the bottom of the notice to the address on the contact stub. Allow at least 30 days for a response.
- For most notices, you will not need to call or visit a walk-in center. If you have questions, call the phone number in the upper right-hand corner of the notice. Be sure to have a copy of your tax return and the notice with you when you call.
- Always keep copies of any notices you receive with your tax records.
- Be alert for tax scams. The IRS sends letters and notices by mail. IRS does not contact people by email or social media to

ask for personal or financial information. If you owe tax, you have several payment options. The IRS will not demand that you pay a certain way, such as prepaid debit or credit card.

For more on this topic, visit [IRS.gov](https://www.irs.gov). Click on the link “Responding to a Notice” at the bottom center of the home page. Also, see Publication 594, The IRS Collection Process. You can get it on [IRS.gov/forms](https://www.irs.gov/forms) at any time. If you need to make a payment visit [IRS.gov/payments](https://www.irs.gov/payments) or use the IRS2Go app to make payment with Direct Pay for free, or by debit or credit card through an approved payment processor for a fee. Remember, each and every taxpayer has a set of fundamental rights they should be aware of when dealing with the IRS. These are your Taxpayer Bill of Rights. Explore your rights and our obligations to protect them on [IRS.gov](https://www.irs.gov).

2. INFLUENCE OF DEBT ON RETIREMENT CONFIDENCE:

Employee Benefit Research Institute says Americans are less likely than in the early years of this decade to describe their debt as a problem. Although down five percentage points since last year, 44% of workers say debt is not a problem for them in 2016. Same as last year, two-thirds (67%) of retirees surveyed report they do not have a problem with debt. The Retirement Confidence Survey has consistently found a relationship between the level of debt and retirement confidence. In 2016, just 9% of workers who describe their debt as a major problem say they are very confident about having enough money to live comfortably throughout retirement, compared

with 32% of workers who indicate debt is not a problem. On the other hand, half of workers with a major debt problem are not at all confident about having enough money for a financially secure retirement, compared with 12% of workers without a debt problem. EBRI Issue Brief #422 (March 18, 2016).

3. SOCIAL SECURITY ESTIMATES FINANCIAL EFFECTS OF BILL THAT WOULD REPLACE WEP WITH NEW FORMULA:

The Chief Actuary of Social Security has responded to a Congressman's request for an estimate of the financial effects on the Social Security Trust Funds of H.R. 711, the "*Equal Treatment of Public Servants Act of 2015*," which the Congressman introduced. The proposal would replace the windfall elimination provision (WEP) with a new formula referred to as the "Public Servant Fairness Formula" (PSF). The proposal reflects his prior bills in concept, replacing the current complex WEP ([See C & C Newsletter for March 3, 2016, Item 9](#)) with a more straightforward approach designed to provide retired worker and disabled worker beneficiaries (and dependents) with a benefit computed with all past earnings included (including earnings in employment that was not covered under the OASDI program starting with 1978), then multiplied by the ratio of the average indexed monthly earnings computed without non-covered earnings to a modified average indexed monthly earnings that includes both covered and non-covered earnings. Another way to describe the new approach is that beneficiaries will receive a benefit that reflects the replacement rate applicable for a worker with the same career earnings, where all

earnings had been covered. Effectively, the PSF formula would compute the workers PIA as the ratio of PIA based on all earnings (covered and non-covered) to the average indexed monthly earnings computed based on all earnings, multiplied by the AIME based on covered earnings only. These two ways of describing the new approach are mathematically equivalent. The proposal will result in added program cost for workers newly eligible for an OASDI benefit after 2016 whose benefit amount would be reduced less by the PSF than by WEP. However, because this proposal does not require receipt of a pension based on non-covered earnings and eliminates most exemptions from adjustments based on non-covered earnings for workers becoming newly eligible for OASDI benefits after December 2016, the estimate reflects small benefit reductions from the PSF for a relatively large number of workers who would not be reduced by the WEP. The net OASDI program benefit savings are estimated at \$13.6 billion total for years 2017 through 2025 for those newly eligible for OASDI benefits after 2016. Additional savings from benefit reductions for application of the WEP under the proposal to worker beneficiaries eligible for OASDI benefits in December 2016 who do not have a reduction for the WEP but are not certified to be exempt. The combination of the expected savings for the workers becoming newly eligible both before and after the end of 2016 are estimated to be sufficient to allow for a 50% reduction (rebate) for all workers eligible as of December 2016, in the amount of the WEP reduction applied for their benefits for entitlement in January 2017 and later. Over the long-range period, the net effect on the 75-year

actuarial balance would be an increase (improvement) of 0.05% of payroll. All estimates are based upon the intermediate assumptions of the 2015 Trustees Report. Estimates for the proposal reflect extensive innovative analysis of data for individuals born in 1950 with experience through June of 2013, including SSA records of earnings not covered by OASDI back to 1978. This analysis allowed SSA to model potential effect of the proposal for 2013 as if it were fully in effect for all retired and disabled workers at that time. Based on those results, SSA was able to model the expected effects of the proposal for benefit payments starting in 2017. Initially, the proposal would affect substantial numbers of current and former Federal, state and local government employees, plus certain other individuals receiving payments counted as wages that are not covered. Over the long-range period, implications of the proposal would progress because the closed group of Federal government employees who are not covered by OASDI were all hired before 1984. Eventually, the group affected by the proposal will be limited principally to 25% of all state and local government employees who are not covered by OASDI. Clear?

4. BANK REGULATORS REJECT “LIVING WILLS”: Bank regulators flexed their muscles, refusing to sign off on “living will” contingency plans drawn up by banks whose health is deemed critical to the U.S. financial system. Eight banks that hold more than \$250 billion in global assets, according to americanlawyer.com, were up for review before the Federal Reserve and the Federal Deposit Insurance Corporation. Seven of them flunked the test, and now face an October

deadline to refile. Well, there is always a bright side to bad news: these annual plans, which run into the thousands of pages and require input from corporate, insolvency, tax, finance and other attorneys, can generate as many billable hours as complex merger and acquisition deals, according to lawyers involved. The banks may be smarting, but it just means more work for the lawyers. Under the 2010 Dodd-Frank Act, living wills, also known as resolution plans, must be submitted every July 1 to both the Federal Reserve and the FDIC. If the rejected plans are not fixed by early fall, the banks could be forced to sell assets or raise capitalization levels. Rejected as inadequate or not credible, the plans were submitted by JPMorgan Chase, Bank of America Corp., Wells Fargo & Co., Bank of New York-Mellon Corp. and State Street Corp. They have until October 1, to file revised plans for their response to a sudden bank failure. Goldman Sachs Group and Morgan Stanley got mixed reviews, with FDIC and the Fed differing on whether their submissions were adequate. Thus, they have until next year's filing deadline to amend their plans.

5. NYC PENSION WILL DUMP \$1.5 BILLION HEDGE FUND

PORTFOLIO: New York City's pension for civil employees voted to exit its \$1.5 billion portfolio of hedge funds and shift the money to other assets, deciding that the loosely regulated investment pools did not perform well enough to justify the high fees, says Bloomberg. The action by the trustees of the \$51 billion Employees Retirement System, (known by the nice name of NYCERS) may signal a growing willingness among public pensions to pull their money from the

investment vehicles, where highly paid managers have become a political lightning rod, and have frequently failed to outperform. (In September 2014, California Public Employees' Retirement System, the largest U.S. pension, divested its \$4 billion portfolio, saying it cost too much and was too small to affect its overall returns.) NYCERS invested with hedge funds with the belief that these funds would add value to the performance -- both by increased returns and decreasing risk by providing downside protection, there is little evidence of either. Last year, NYCERS's hedge fund portfolio lost 1.88%, lagging both the Standard & Poor's 500 Index and the Barclays U.S. Aggregate Bond Index. Three-year returns were only 2.83%. NYCERS's hedge fund investments were subject to intense political scrutiny. New York Mayor Bill de Blasio has referred to funds that bought Puerto Rico's bonds as "predators" because they demanded cuts in spending and services to ensure they were paid in full. Two of NYCERS's hedge fund managers held some of Puerto Rico's \$70 billion debt. Hedge fund managers have also come under fire for supporting charter schools, which are privately run but funded with taxpayer money. By the way, hedge funds still manage money for New York City's pensions for firefighters and police officers. The teachers and education administrators do not invest with hedge funds.

6. TRENDS IN RETIREMENT SATISFACTION IN THE UNITED STATES: FEWER HAVING A GREAT TIME: Most existing research on the well-being of the retired population focuses on the economic indicators reflecting or affecting retirement satisfaction. But economic

well-being is not necessarily the primary indicator of retirement satisfaction and efforts to differentiate among the many factors affecting retirement satisfaction are complex and, ultimately, not determinative. Instead, the study presented by the Employee Benefit Research Institute focuses directly on three issues relating to overall retirement satisfaction. (1) It analyzes the trends in reported retirement satisfaction in the United States over a period of 15 years (1998-2012) using data from the University of Michigan's Health and Retirement Study, one of the most comprehensive national survey of older Americans. The results show that the share of very satisfied retirees has been declining over this period, but the shares of moderately satisfied and not at all satisfied retirees have been increasing. This trend is spread across all economic groups; (2) It examines the relationship between age and retirement satisfaction by tracking the satisfaction levels of a fixed group of retirees over the same 15-year period (1998-2012). Unlike earlier reports, the results show a shift from very satisfied to moderately satisfied as people age, similar to the shift observed in the overall time trends; and (3) It examines the relationship between gender and retirement satisfaction, and the results show very little difference in retirement satisfaction between men and women. Here are some of the findings:

- The cross-sectional results in this study show that the share of respondents reporting "very satisfying" retirements dropped from 60.5% in 1998 to 48.6% in 2012. On the other hand, the share of respondents reporting "moderately satisfying" and "not

at all satisfying” retirements increased from 31.7% to 40.9% and from 7.9% to 10.5%, respectively.

- The longitudinal results from a fixed sample observed over the 15-year period from 1998 to 2012 show similar declines in the share of respondents reporting “very satisfying” retirements and similar increases in the share of respondents reporting “moderately satisfying” retirements. This is in contrast to some of the previous research, which shows that retirement satisfaction increases with age.
- These trends are not limited to particular economic groups: both the highest- and lowest-asset quartiles show similar trends. Also, people with and without pension income show similar trends in retirement satisfaction levels.
- As might be expected, net worth and health status are strongly correlated with retirement satisfaction. Higher net worth is associated with higher levels of satisfaction, and poorer health is associated with lower levels of satisfaction.
- There is no significant difference in retirement satisfaction levels between men and women.

To read the entire informative report:

https://www.ebri.org/pdf/notespdf/EBRI_Notes_04_Apr16.Ret-Satis.pdf

EBRI Notes Vol. 37, No. 4, April 2016

7. PUBLIC SAFETY OFFICERS' BENEFITS PROGRAM;

IMPROVEMENTS MADE BUT INFORMATION ON PERFORMANCE

GOALS STILL NEEDED: The United States Government Accountability Office's 2009 report on the Public Safety Officers' Benefits program -- created to provide certain benefits in cases of public safety officers' death or total disability in the line of duty identified issues with the timeliness of claims processing, program awareness, and performance measurement. Specifically, GAO found that death and education claims were processed faster than disability claims. GAO estimated that the Department of Justice's PSOB Office generally had processed education and death claims in under a year while disability claims took between 17 and 26 months. In 2009, most claims were being processed on paper, and DOJ had plans to establish an automated claims system to help ensure more efficient claims processing and improve available claims data. This system has since been established. GAO's 2009 report also identified issues with awareness of program benefits and adherence to federal guidelines for performance monitoring. In particular, representatives of 15 of the 44 public safety organizations GAO spoke with mentioned a lack of awareness about disability or education benefits, while officials from another 6 organizations were concerned that their constituents had a general lack of knowledge of the program. Moreover, GAO found that because DOJ had not set strategic goals and measures for the program, monitored performance, or reported results, the program had little accountability. To enhance claimant awareness and program accountability, GAO recommended that DOJ establish appropriate performance measures and goals for the PSOB program and use

reliable data to monitor and report on program performance. DOJ agreed with GAO's recommendations and has taken some steps to address them. Specifically, by 2014, DOJ had established two PSOB performance measures and posted data for these measures on its public website. DOJ subsequently posted data for additional performance measures on its website, including average number of days to assign a PSOB Outreach Specialist and percentage of claims determined within 1 year. While posting data on these measures represents an improvement, as of April 2016, DOJ had not taken the additional step of publishing performance goals which specify the desired level of performance for the PSOB program. GAO continues to believe that publishing performance goals is a key step in gauging how well the program is working and enhancing stakeholder awareness of the program. Findings from a 2015 report by DOJ's Office of Inspector General highlighted the program's continuing problems in the timeliness of claims processing and reporting of reliable program performance data. The OIG concluded that it did not believe that the PSOB Office's database, as a management tool, was adequate to evaluate efficiencies in processing or to identify potential causes of timeliness problems. The OIG made four recommendations to DOJ to address these concerns, and DOJ agreed with the recommendations. Continued attention to these issues by DOJ is needed to help ensure accountability for achieving the program's goals. GAO-16-617T.

8. LARGEST PUBLIC DEFINED CONTRIBUTION PLANS: Here

from P & I Research Center is a list of the largest public DC plans in the United States:

- New York State Deferred Compensation, \$17.8 billion
- New York City Deferred Compensation, \$15.0 billion
- Washington State Investment Board, \$14.1 billion
- New York City Teachers' Retirement System, \$11.7 billion
- Ohio Public Employees Deferred Compensation, \$11.3 billion
- California State Savings Plus Program, \$10.4 billion
- County of Los Angeles Deferred Income Program, \$10.3 billion
- North Carolina Retirement System, \$8.7 billion
- Florida State Board of Administration, \$8.6 billion
- Minnesota State Board of Investment, \$7.6 billion

9. ALLEGED MISLEADING STATEMENTS ON RETIREMENT

CHANGES INVITE SUIT AGAINST BP: A current and a retired BP employee have filed a lawsuit against the company, charging it with misleading employees over earlier changes to its retirement system. According to pionline.com, plaintiffs allege that BP told them when it replaced its traditional defined benefit plan with a cash balance plan in 1989 that the cash balance plan was comparable to, and, in most cases, better than prior benefits under the old plan, when actually, some employees' benefits were reduced. Plaintiffs further allege BP failed to give participants timely and sufficient notice about the conversion, used an unreasonably high interest rate to calculate value of opening balances when the plan was converted, which reduced participants' balances, and adjusted the cash balance to preserve the

benefits of certain employees.

10. STATES' WAR ON CITIES: *Governing* has published an article referring to North Carolina's fight over LGBT protections as part of a larger recent shift in political dynamics. States are thwarting local laws every change they get, while simultaneously complaining about federal intrusion on their own. St. Louis cannot get a break from its own state. Last year, Missouri enacted a law preventing St. Louis and other cities from setting their own minimum wage rates and from banning plastic grocery bags. This year, state lawmakers have spent a considerable amount of time debating whether to prohibit the city from taxing the income of its residents and workers. The state, which took control of the St. Louis police force during the Civil War, did not give it back until 2013, when it was forced to by a voter-approved ballot measure. [How many people knew that bit of trivia?] If St. Louis feels ill-treated by state officials, it has got lots of company around the country. North Carolina's legislature drew national headlines when it met in special session to block cities from passing anti-discrimination protections for lesbian, gay, bisexual and transgender people. The legislature acted in response to Charlotte's adoption of LGBT protections earlier in the year. What was sometimes lost in the media coverage was that the new North Carolina law also blocks cities from setting their own minimum wage rates. Similarly, Birmingham, Alabama, passed a minimum wage increase last year, only to see the state block it and other cities from setting their own rates this year. There is a fundamental mismatch right now between the desires of

many cities and the policy preferences of states. Out of power in Congress and in two-thirds of the nation's legislative chambers, progressives from President Obama on down are increasingly turning to cities to carry out their agenda. Democrats are in charge of the lion's share of big cities. Right now, just three of the nation's 25 largest -- Fort Worth, Texas; Jacksonville, Florida; and San Diego -- have Republican mayors. Many of the current Democratic mayors are to the political left of those who governed their cities a century ago. But, as in physics, every movement in politics prompts an opposite if not always equal reaction. As cities attempt to fulfill liberal wishes, they are increasingly stymied by the Republicans who dominate state offices. The GOP currently controls all branches of government in more than three times as many states as Democrats. There is rarely much doubt about who will win an argument between a Democratic city and a Republican state -- the state nearly always has the upper hand. Cities may have been even more outmatched by states during the first half of the 20th century, before the Supreme Court abolished the practice of apportioning legislative districts by county, rather than by population. The political dynamic between cities and the rest of their states has shifted more recently in ways that have put urban centers at a new disadvantage. Land mass no longer determines legislative power, but there is a lot of room left outside the main cities for Republicans to dominate. In Missouri, there is hardly a Democratic legislator who hails from outside St. Louis or Kansas City. The 113 other counties are almost all overwhelmingly Republican, giving the GOP supermajority control of both legislative chambers. Many states

follow a similar pattern. Far fewer Democrats are elected to state legislative seats outside major metropolitan areas than was the case 15 or 20 years ago. Conversely, there are not a lot of Republicans elected from districts representing big cities or even many inner-suburban areas. The result is that traditional regional rivalries almost perfectly align with partisan divisions. States like to complain they are short changed by federal programs, receiving back less money than they send to Washington, but they feel little compunction about dealing a similar blow to their local governments. When it comes to funds for roads, schools and universities, states are less likely to invest in their own major cities. A recent survey of 89 mayors in 31 states showed they believe relations with their states are now actually worse than relations with the federal government. One Midwestern mayor, whose party controls the legislature, said simply, “our state is nuts.” [And you, Buddy, are the one to crack them.]

11. TOP WOMEN CHIEF INVESTMENT OFFICERS: *TrustedInsight's* Top 30 Women Chief Investment Officers introduces the most influential women in institutional investing today. The authors looked across endowments, foundations, family offices, pension funds, insurance companies and corporations to find the leading CIOs, who also happen to be women. Heading up billion-dollar institutions, these CIOs are fundamental in shaping the future of the long term investment industry.

- Kim Lew, Carnegie Corporation, \$3.4B Assets Under

Management. As chief investment officer, Kim Lew is responsible for the investment management and oversight of the corporation's endowment. Prior to joining the corporation, Ms. Lew spent seven years as senior manager of private equity for the Ford Foundation.

- Collette Chilton, Williams College Endowment - \$2.25B Assets Under Management. Collette Chilton is the chief investment officer for the Williams College Endowment. She holds a bachelor of science from the University of California Berkely and an MBA from The Tuck School of Business at Dartmouth University. Before being named chief investment officer of Williams College, she served as president and CIO of Lucent Asset Management Corporation.
- Ann Martin, Wesleyan University. Anne Martin is the chief investment officer at Wesleyan University. Prior to this role, she was director at Yale's Investment Office, where she focused on natural resources and private equity, and a general partner at Rosewood Capital.
- Dhvani Shah, Illinois Municipal Retirement Fund - \$34.9B assets under management. Dhvani Shah is the chief investment officer of Illinois Municipal Retirement Fund, a pension fund with \$34.9 billion assets under management. Previously, Shah was the managing director of private equity of the \$89.9 billion New York State Teachers' Retirement System.
- Dina Richard, CHE/Trinity Health. Dina Richard has been chief investment officer, senior vice president of treasury and

treasurer at Trinity Health Corporation since December 2014. Prior to joining Trinity Health, Richard served as vice president of investments for Taubman Ventures Management.

The list comprises of twenty-five others.

12. GOLDEN OLDIE HITS RENAMED: Some of the pop stars of yester year are revising their hits with new lyrics to accommodate aging Baby Boomers. They include: Bobby Darin -- Splish, Splash, I Was Havin' A Flash.

13. SO YOU THINK YOU KNOW EVERYTHING: In the last 4,000 years, no new animals have been domesticated.

14. TODAY IN HISTORY: In 1912, 5th Olympic games open at Stockholm, Sweden.

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>.