



CYPEN & CYPEN
NEWSLETTER
for
JULY 14, 2016

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Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. PRESERVING RETIREMENT INCOME SECURITY FOR PUBLIC SECTOR EMPLOYEES: The National Institute on Retirement Security has a new issue brief *Preserving Retirement Income Security for Public Sector Employees*. When it comes to their retirement finances, Americans are concerned with two things: a steady and adequate retirement income that will not run out, and the ability to move their

retirement plans from job to job. These two characteristics can sometimes be seen as conflicting with one another. For example, if a plan is portable, that may limit the ability to accrue enough income to sustain a full retirement. Traditional defined benefit pension plans are typically seen as able to meet the goal of income security in retirement, while defined contribution plans are seen as more easily portable. However, it is not necessarily the case that DB plans cannot provide portability, nor that DC plans are unable to provide for secure retirement income. The author analyzes 89 public pension systems throughout the country to assess the portability features of public pension systems and the ability for their members to build retirement income. Over the past several decades, an increasing number of private sector employers have moved away from DB pensions towards DC plans for various business reasons. State and local government retirement systems, by contrast, have maintained DB pensions as the primary retirement plan design, largely due to the demographic characteristics of the public sector workforce and an understanding of the cost efficiencies DB pensions offer by pooling risks and investments. The private sector switch from DB to DC plans has resulted in a “great risk shift” where the risk and most of the funding burden falls on individual employees, rather than experienced professionals and employers. The results of this shift are startling -- currently, the median retirement balance for all working-age households is only \$2,500; for households near retirement, the balance only marginally improves to \$14,500. While employees do value the ability to move their DC account balances from one plan to another

when they change jobs, far too many employees do not roll their balances into a new plan, but rather cash out their account balances, which helps to contribute to the dismally low account balances Americans experience as they get close to retirement. To assure that employees reach retirement with adequate sources of income, financial experts recommend that individuals start saving early in their careers, save consistently during the course of their careers, and preserve retirement benefits during job transitions. Public DB pension plans stack up well on these points. Almost all public retirement systems consistently require employees to contribute toward the cost of their retirement benefits as soon as they start working, and to continue with every paycheck.

Various public pension plans around the country provide a varied array of benefit designs and provisions. NIRS surveyed 89 public pension plans in order to analyze the similarities and differences between the plans on features such as plan design; employee contribution rates; vesting rates; interest rates paid on employee contributions; refundability of contributions; and ability to purchase service credits. The key findings are as follows:

Almost all of the public retirement systems surveyed offer a DB pension plan. In fact, most public retirement systems provide new members with a DB pension benefit or a DB benefit in combination with a DC account. Only a very small number of systems provide only a DC benefit.

Many public pension plans have adopted features that allow individuals who change jobs to retain and even increase their benefits. In fact, 71% of the plans surveyed credit their members with interest on their contributions if they leave and request a refund. Most plans allow their members to later rejoin a system and repay their refund with interest, and most plans allow separated members the option of leaving their account balances with the plan so that it may continue to earn interest.

Nearly all public retirement systems allow members to purchase additional service credits to increase their pension benefits. Specifically, all public DB plans allow for the purchase of service credits for prior military service, and more than half of the plans surveyed allow for the purchase of credits for prior out-of-state government service. Some plans allow for the purchase of credits for other specified types of service and leave.

A number of plans have features that increase benefits for short or moderate term employees. Modifications include increasing the value of the deferred annuity benefits paid to former employees, rewarding employees who choose to keep their member accounts in the plan with interest, and providing even higher matching amounts. These features can encourage workers who leave before retirement to preserve the lifetime retirement income benefits they have earned, rather than spend their refund.

To read the entire informative piece:

http://www.nirsonline.org/storage/nirs/documents/Portability%20Report/preserving_security_public_sector_web.pdf.

July 2016.

2. THE BIGGEST COMPANIES IN AMERICA HAVE A RECORD \$600 BILLION RETIREMENT PROBLEM: The future of retirement in America has drawn a lot of worry. Whether the government's massive pension shortfall or the low returns on investments potentially leading to a crisis, there appears to be a lot of concern about nest eggs coming up short according to businessinsider.com. Privately funded pensions at S&P 500 companies are facing their largest deficit ever. Because of the lowest yields on corporate bonds since the 1950s, equity strategists project a record shortfall for these funds. The 130 basis points drop in Baa corp yields YTD likely added roughly \$250 billion to the present value of liabilities. Return on assets, which includes bonds, likely kept pace with the unwinding liability discount rate. The report estimates liabilities to be \$2.3 trillion and assets \$1.7 trillion right now, for a record deficit of \$600 billion, up from the \$300-400 billion range of recent years. Put another way, because of the low returns on invested assets, companies' income to fund their pension plans simply cannot keep up with the promised retirement payments. This is an economy-wide issue but is particularly worrisome in the auto, airlines, materials, industrials, and utilities industries where pensions are more common. To be fair, the pension liabilities for these firms are reported at year-end, so there might be an increase in the assets side of the projection. But with bond markets continuing to see sinking yields and investment returns looking

challenged that appears to be unlikely.

3. WHAT MILLENNIALS ARE DOING RIGHT -- AND WRONG --

ABOUT RETIREMENT: A Wells Fargo study found that although young workers may be over-confident about their investing skills, they are good at handling their 401(k) plans. About 28% of them contribute at least 10% of their salaries. The number of workers who have incomes of more than \$100,000 and who save at least 10% of their earnings increased 15.3%, and while these workers are mostly baby boomers, only 7.7% of 401(k) participants aged 50 and above take advantage of their plans' catch-up contributions, the study found. The survey also found the first generation that had the full, out-of-the-gate use of tools like auto-enrollment and target-date funds, is really getting people into plans early and getting them diversified.

4. THE BEST CITIES FOR A WORKTIREMENT: As reported by *Fox Business*, Fort Lauderdale, Florida, Pompano Beach, Florida, and Medford, Oregon, lead the cities across the country that provide the best conditions for seniors who plan to continue working past their retirement age. The cities were ranked according to a set of factors that include senior population, average effective tax rate and senior unemployment rate. It is a good idea to continually think about what is important to you and factor that into your retirement plan. Regional factors that affect the quality of life for retirees, like medical care and social opportunities, can be important considerations when choosing where to retire.

5. PENSION FUNDS LARGEST GROUP OF ALTERNATIVES

INVESTORS: Total assets managed by the top 100 alternative investment managers globally reached \$3.6 trillion, up 3% from the prior year. The research, which includes data on a diverse range of institutional investor types, shows that pension fund assets represent one-third (34%) of the top 100 alternative managers' assets, followed by wealth managers (19%), insurance companies (10%), sovereign wealth funds (6%), banks (2%), funds of funds (FoFs) (2%), and endowments and foundations (2%) as reported by plansponsor.com. Of the top 100 alternative investment managers, real estate managers have the largest share of assets (34% and more than \$1.2 trillion), followed by hedge funds (21% and \$755 billion), private equity fund managers (18% and \$640 billion), private equity funds of funds (PEFoFs) (12% and \$420 billion), funds of hedge funds (FoHFs) (6% and \$222 billion), infrastructure (5%) and illiquid credit (5%). Pension fund assets, managed by the top 100 asset managers of pension funds, increased again from the year before to reach almost \$1.5 trillion. Real estate managers continue to have the [largest share of pension fund assets](#) with 40%, followed by PEFoFs (20%), hedge funds (10%), private equity (9%), infrastructure (8%), FoHFs (7%) and illiquid credit (4%). The alternative asset management industry continues to be remarkably reliant on pension fund money and has earned a position of trust by delivering diversified returns via some of the most highly skilled investment teams around, however, there is an ever-increasing demand for more alignment and lower cost. The research shows, among the top 100 managers, that North America continues to be the preferred

destination for investment in alternative assets (50%), with illiquid credit and infrastructure being the only asset classes where more capital is invested in Europe. Overall, 37% of alternative assets are invested in Europe and 8% in Asia Pacific, with 5% throughout the rest of the world.

6. FOR MANY WOMEN, PLANNING FOR RETIREMENT IS A

MYSTERY: According to the U.S. Department of Labor, women live longer than men on average, and often face different types of challenges in saving for a secure retirement. That is why women need to make the most of their money. The Department of Labor's Employee Benefits Security Administration has scheduled a webcast titled "Taking the Mystery Out of Retirement Planning -- A Focus on Women." The webcast is scheduled for Wednesday, July 27, 2016, 2:00-3:30 pm EST, which will help women unravel the mystery of retirement planning and help reach their retirement goals. The webcast will help women who are about 10 to 15 years from retirement determine if their retirement planning is on track and find ways to fill in any savings gap. It also will provide tools and information for women of all ages who have questions about retirement planning. EBSA will be joined by the Social Security Administration, the Centers for Medicare and Medicaid Services and the Administration on Community Living. The SSA and the CMS will discuss what women need to know to make the most of their Social Security and Medicare benefits and the online resources available to help them. The ACL will highlight strategies to prevent identity theft, fraud and financial exploitation and alleviate some of the stresses caregivers experience in relation to managing finances. To register for this very informative

webcast visit:

<http://mp163422.cdn.mediaplatform.com/163422/wc/mp/4000/15208/30195/63348/Lobby/default.htm?ref=ProductionTeamEmail>.

7. GOLDEN OLDIE HITS RENAMED: Some of the pop stars of yesteryear are revising their hits with new lyrics to accommodate aging Baby Boomers. They include: Leslie Gore -- It's My Procedure, and I'll Cry If I Want To!

8. AGING GRACEFULLY: My people skills are just fine. It is my tolerance of idiots that needs working on.

9. TODAY IN HISTORY: In 1951, first color telecast of a sporting event. (CBS – horse race).

10. 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.

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interested that they can subscribe to their own free copy of the newsletter at <http://www.cypen.com/subscribe.htm>.

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