



CYPEN & CYPEN
NEWSLETTER
for
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Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. IRS MODIFIES DETERMINATION LETTER PROGRAM FOR INDIVIDUALLY DESIGNED PLANS: The Internal Revenue Service revised Revenue Procedure 2016-37, effective January 1, 2017. The revision changed the:

- Determination Letter Program for tax-qualified individually

designed plans (IDPs); and

- Requirements for when plan amendments must be adopted under IRC Section 401(b).

While the Revenue Procedure covers many changes, most relate to when an IDP:

- Must be amended for law and other guidance changes; and
- May request a determination letter.

Revenue Procedure 2007-44 provided a 5-year remedial amendment cycle system for amended IDPs to request a determination letter generally every 5 years. Under that system, plans had to adopt interim amendments for items on the Cumulative List of required plan changes. This system required IDPs to amend on an interim basis by the end of the year in which the amendments became effective. IDPs would then have to make final conforming amendments at the end of their 5-year RAC cycle. Announcement 2015-19 stated that the RAC system would end, and a replacement system for the IRC Section 401(b) period would be created. Rev. Proc. 2016-37 ends the RAC system and replaces it with a new approach to the remedial amendment period. When must IDPs be amended? An IDP's IRC Section 401(b) remedial amendment period for required amendments will be tied to a Required Amendment List, unless legislation or other guidance states otherwise. Interim amendments will no longer be required for IDPs. The RA List is the annual list of all the amendments for which an IDP must be amended to retain its qualified plan status. IRS will publish the RA List after October 1

of each year. Generally, plan sponsors must adopt any item placed on RA List by the end of the second calendar year following the year the RA List is published. For example, plan amendments for items on the 2016 RA List generally must be adopted by December 31, 2018. Discretionary amendments will still be required by the end of the plan year in which the plan amendment is operationally put into effect, as under Revenue Procedure 2007-44. Revenue Procedure 2016-37 does not change a plan's operational compliance standards. Employers need to operate their plans in compliance with any change in qualification requirements from the effective date of the change, regardless of the plan's 401(b) period for adopting amendments. To assist employers, IRS intends to provide annually an Operational Compliance List to identify changes in qualification requirements that are effective during a calendar year. When may a plan apply for a Determination Letter? Under Revenue Procedure 2016-37, a plan can request a determination letter only if any of these apply:

- It has never received a letter before;
- The plan is terminating; or
- The IRS makes a special exception. IRS anticipates making exceptions based on program capacity to work additional applications, and the need for rulings in certain areas. We'll measure need in a variety of ways including annual input from the EP community.

To read Revenue Procedure 2016-37 in its entirety visit:

<https://www.irs.gov/pub/irs-drop/rp-16-37.pdf>.

2. NEW JERSEY AMENDMENT GUARANTEEING PENSION

CONTRIBUTIONS MOVES CLOSER TO BALLOT: The New Jersey State Assembly voted to place a constitutional amendment before voters in November guaranteeing state contributions to the \$70.9 billion New Jersey Pension Fund, Trenton, and making sure payments are made quarterly rather than at the end of the year according to pionline.com. The vote passed 50-25 with two abstentions. The state Senate has not voted yet. Both houses are controlled by Democrats, and Governor Chris Christie, a Republican, cannot veto a constitutional amendment resolution. Mr. Christie opposes the proposed amendment. Both chambers approved proposals in the previous legislative session that ended in January, but their votes fell short of the state law allowing an amendment for voter consideration after one-time legislative votes. So, legislators must vote again with simple majorities needed to approve the proposal. Democratic supporters say the amendment will offer consistency in offering steadily rising state payments to the pension fund and will guard against any governor making last-minute cuts in payment promises. For fiscal 2014 and 2015, Mr. Christie reduced the promised state contributions, citing the constitutional requirement that the state have a balanced budget each fiscal year. The cuts survived legal challenges. Mr. Christie also made a contribution to the pension fund for the current fiscal year that was less than state law required. Supporters of the proposed constitutional amendment said they acted in response to a 2015 state Supreme Court ruling that state payments to the pension fund were not guaranteed by the state constitution. Mr. Christie and

fellow Republicans said the proposed amendment would force the state to make pension fund contributions regardless of financial events affecting the state, leading to the prospect of significant cuts in other areas or higher taxes in order for the state to meet its constitutional requirement of a balanced budget for each fiscal year. Separately, the state Assembly and Senate overwhelmingly approved a bill to prohibit the New Jersey Pension Fund from investing in any company that boycotts, divests from or sanctions Israel or Israeli business, or boycotts companies operating in Israel or Israel-led territory. The prohibitions do not apply to companies providing humanitarian aid to the Palestinian people, the bill said. The Assembly approved the bill 70-3 with two abstentions. The Senate approved the bill 37-0. It now goes to Mr. Christie for approval.

3. WHAT IS A STABLE VALUE FUND?: Many retirement investors like the idea of an investment that does not lose value and provides a solid return according to foxbusiness.com. Stable value funds are designed to do exactly that, helping you preserve capital while generating returns that are consistent with what you can get from fixed-income investments. Available to most investors only through employer retirement plans like 401(k) plans, stable value funds offer an attractive combination of income generation and share-price stability that stands in stark contrast to riskier assets that are available in most 401(k)s. Yet stable value funds own more complicated investments than bond funds and other fixed-income alternatives. Stable value funds have diversified portfolios of fixed-income securities that closely resemble what you would find in a typical

bond fund. However, stable value funds take an additional step to protect their investors from the interest rate fluctuations that so often cause traditional bond funds to suffer dramatic swings in their share price. Specifically, stable value funds enter into contracts with banks or insurance companies that are specifically designed to offer rate protection. These contracts come in three main categories. Guaranteed interest contracts are arrangements with insurance companies that preserve principal and offer a specified rate of return regardless of how the underlying assets perform. Separate account contracts are similar, except that the accounts are held directly by the insurance company. Finally, synthetic GICs offer the same protection but allow the account holders in the 401(k) plan to continue to own the underlying assets. Stable value funds typically use a combination of these three methods to provide the price stability their investors demand. Even with this protection, stable value funds are not always successful in their efforts to preserve principal. Defaults in the underlying bonds can fall outside the contractual guidelines that protect principal value, as can corporate events such as layoffs or early retirement programs that create a run on the assets of the stable value fund. Often, however, the stable value fund will work with the 401(k) plan sponsor to anticipate corporate events that could destabilize the fund. Nevertheless, stable value funds tend to offer higher returns than money market funds and other low-volatility alternatives, and so many 401(k) plan participants in plans that offer stable value funds appreciate the diversification they offer. For those seeking long-term capital appreciation, stable value funds will not provide the level of growth most people need to achieve their retirement goals.

However, as a component of a balanced portfolio that includes more growth-oriented investments, stable value funds can reduce overall portfolio risk while avoiding some of the key pitfalls of many fixed-income investment options.

4. MOST RETIREES GET LITTLE ADVISER HELP ON SOCIAL

SECURITY: A study by the Nationwide Retirement Institute has found that less than one-third of pre-retirees and retirees have hired a financial adviser. Moreover, 59% of those with an adviser say they received no guidance on Social Security benefits. Those findings are consistent with the past two years' study results. A lot of this is due to the fact that most advisers wish they had more information about Social Security rules and regulations. Most advisers do not have extensive knowledge about it, so they do not bring it up to their clients.

5. STRAPPED RETIREES ARE TURNING TO REVERSE

MORTGAGES: The surge in demand for reverse mortgages may see an upswing -- as it did during the financial crisis of 2008-2009, as more baby boomers are heading to retirement, according to CNBC. The federal government has tightened the reverse mortgage rules to protect older people who want to tap their home equity to boost their retirement income. The Home Equity Conversion Mortgage program was created to give seniors access to an incremental, sustainable financial resource to allow them to age in place, not as an ATM machine, says a spokesman for the U.S. Department of Housing and Urban Development.

6. HOW TO SHORE UP SOCIAL SECURITY FOR 75-PLUS YEARS:

The federal government should make the Social Security's benefit formula more progressive to help fix the program's solvency issues, according to a 13-point proposal by the Bipartisan Policy Center. The proposal also includes initiatives to increase benefits for workers who pay payroll taxes for more than 35 years, set a basic minimum benefit, and raise retirement ages to keep up with increased longevity. Other main measures proposed by the BPC are to lower cost-of-living adjustments for bigger benefits in the future, place a limit on the nonworking spousal benefit, and scrap the windfall elimination provision and government pension offset says *CBS Moneywatch*.

7. U.S. CORPORATE PENSION FUNDING DROPS IN SECOND

QUARTER: The funding ratios for U.S. corporate defined benefit plans fell in the second quarter of 2016, as liabilities rose faster than assets, according to pionline.com. The funded status of a typical U.S. corporate pension plan declined 3.2 percentage points to 75.6% in the three months ended June 30, 2016. Liabilities for the average plan rose 6% over the second quarter, the result of a 34-basis-point drop in the discount rate to 3.6%. Plans with a traditional 60% global equity and 40% aggregate fixed-income asset allocation saw their assets increased only 1.6% during the quarter. Global equities and the S&P 500 rose 1.19% and 2.46%, respectively, during the second quarter. The aggregate funding ratio for U.S. corporate pension plans declined to 76.1% as of June 30, down 1.8 percentage points from both March 31 and May 31. The monthly decline resulted from a 3.5% increase in liability values vs. a

1.1% increase in asset values in June. The quarterly decline resulted from a 4.3% increase in liability values vs. a 1.9% increase in asset values. The aggregate funding ratio is down 5.3 percentage points year-to-date June 30. Liabilities are up 10.9% from Dec. 31, while assets are only up 3.6%. Though non-U.S. stocks posted negative returns in June, assets were up overall as fixed-income assets posted their largest monthly gain since January 2015.

8. 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>

9. 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: The Temptations -- Papa's Got a Kidney Stone.

10. AGING GRACEFULLY: The biggest lie I tell myself is... "I do not need to write that down, I will remember it." [The old "steel trap" trick?]

11. TODAY IN HISTORY: In 1898, the United States annexed Hawaii.

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.