



**CYPEN & CYPEN**  
**NEWSLETTER**  
**for**  
**JUNE 23, 2016**

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Never Forget September 11, 2001

and

Always Remember May 2, 2011

**1. SOCIAL SECURITY AND RETIREMENT PROGRAMS AROUND THE WORLD: CAPACITY TO WORK AT OLDER AGES:** National Bureau of Economic Research has issued a new working paper, which is a part of the National Bureau of Economic Research's International Social Security project supported by the National Institute of Aging. The paper is an introduction and summary to the

seventh phase of an ongoing project. The project compares the experiences of a dozen developed countries, and uses differences in their retirement program provisions to explore the effect of SS on retirement and related questions. The first three phases of the project document that: 1) incentives for retirement from SS are strongly correlated with labor force participation rates across countries; 2) within countries, workers with stronger incentives to delay retirement are more likely to do so; and 3) changes to SS could have substantial effects on labor force participation and government finances. The fourth volume explores whether higher employment among older persons might increase youth unemployment, and finds no link between the two. The fifth and sixth volumes focus on the disability insurance (DI) program, finding that changes in DI participation are more closely linked to DI reforms than to changes in health and that reducing access to DI would raise labor supply. This seventh phase explores whether older people are healthy enough to work longer. The authors use two main methods to estimate the health capacity to work, asking how much older individuals today could work if they worked as much as those with the same mortality rate in the past or as younger individuals in similar health. Both methods suggest there is significant additional health capacity to work at older ages. NBER Working Paper No. 21939 (January 2016). The foregoing working paper apparently spawned a *Bloomberg* article “How to Raise the Retirement Age for People Who Want to Work.”

## **2. HOW THE PUERTO RICO RESCUE MAKES STATE**

**PENSIONERS THE BIG WINNER:** In many states, public pension plans have deeper problems than most taxpayers realize, according to thehill.com. The money that was supposed to have been set aside to pay for future pension obligations is simply not there. It is more than just a simple miscalculation -- this is very much a sin of commission in most states. It is a problem that has developed over decades: it has always been easier for politicians to boost pension benefits to grumbling state government workers -- most of whom are members of their government employees' union, an extremely potent political force in every state, in lieu of higher wages today, and leaving it to a future government to ensure that these promises would be adequately funded. The booming stock market of the 1990s led numerous states to believe their funding problems were solved and then some, inducing several of them to skip their required pension payments for various years. The ostensible budget savings allowed states to spend money and buy votes elsewhere -- in turn, often increasing future obligations -- or else by cutting taxes. The inevitable stock market corrections proved these holidays to be foolhardy. These days, the ineluctable forces of demographics and longevity gains are forcing states to confront their underfunded pension largesse of the past, and for most it is not terribly pleasant. The prospect of states having to pay their large baby boomer cohort pensions that can exceed \$100,000 a year per retiree for the remaining 30 or 40 years of their lives is a daunting tab. For a state like Illinois, which has been making ill-advised short-term patches of its budget for more than a decade, it is simply impossible for it to honor its pension promises in the long run

without a dramatic change. One possibility would be to reduce the pension benefit, but that is a nonstarter: the state's Constitution guarantees that a promise made to current retirees and government workers must be honored, and the courts have ruled that this precludes making current retirees pay more of their healthcare costs or current employees work longer before receiving their benefit. Another possibility would be to simply increase the state's income tax, which is currently a relatively low 3.75%. The current budget stasis in the state revolves around the amount of concessions that Republican Governor Bruce Rauner wants from the Democratic supermajorities in the State House of Representatives and Senate for signing such an increase; but even a 2% increase in the income tax, something the last governor did temporarily to shore up the budget, is not going to be enough to fully pay the billions of past-due bills, the postponed infrastructure investment and also cover the looming pension shortfall. To fully fund the state pension fund -- which could go broke in a decade, according to some analyses -- it is going to take a New Jersey-style personal income tax system, where everyone is paying more money than they are now and the wealthy are paying a lot more, like in the ballpark of 10%. If that were to pass, the second that taxpayers realized their tax rates had doubled or tripled solely to pay for the generous pensions of state employees that dwarf their own, riots will ensue, and the world that Speaker Mike Madigan of the Illinois House of Representatives has created would be ruled by a new set of politicians. Since politicians are loath to lose their jobs, a brutal tax increase probably is not in the cards, at least not in the near

term. The political path of least resistance is to make the hedge funds and other investors who lent to the state of Illinois pay for the state's pension shortfall, and the apparent Puerto Rico solution being debated by Congress provides a viable path to make that happen. Right now, states cannot declare bankruptcy, which is one reason why states have traditionally been able to borrow at such low rates of interest. However, financial markets have come to realize, belatedly, that Illinois (along with other states) is making promises to its lenders that it will have trouble keeping. Puerto Rico was not supposed to be eligible for bankruptcy either, but the legislation before Congress will allow the territory to reduce its debt, both general obligation and non-general obligation debt. If the bill does become law, the island will promptly cease making payments to its bondholders for the indefinite future: the proposed 2017 Puerto Rican budget -- which assumes as much -- sets aside no money to pay general obligation bondholders. Since the legislation also stays creditor lawsuits, the island can proceed to use the funds freed up by stiffing the creditors to hire more workers, build infrastructure and put money into its nearly bankrupt pension fund. Any money that does get stashed in the pension fund will be well-nigh impossible to disgorge when the stay is lifted. The Puerto Rican government can pull out its pockets and plead poverty and any creditor that lost money during the stay will likely be out of luck. This is the blueprint Illinois will almost surely follow. It will request that Congress extend it some sort of bankruptcy protection and it will present Congress with a facile choice: Does it want to protect the evil vulture funds from Wall Street that lent it money or the

hardworking state employees who just want the pension promised to them? Congress may want to pretend otherwise, but the current legislation before it favors one set of pensioners ahead of other pensioners whose money happens to be invested in Puerto Rican debt. The safe bet is that before too long, Illinois will be allowed to stiff its creditors at a propitious moment -- not before trashing them avaricious or immoral, no doubt -- and their pensioners will be held harmless, too. Before too long, the next state will take its cue from Illinois, and the pattern will be set, if not by law then by custom: state employees on a defined benefit pension will always come before investors who foolishly lent money to their state. No one will care one whit if that money represents the retirement funds of other U.S. citizens, either. It would not be a blow for income inequality; state workers have a higher income and better pensions than most other Americans whose retirement savings will suffer because of this reordering. It is certainly not a just outcome, given that the states borrowed that money at a low interest rate in no small part because law and custom dictated their payments would supersede other creditors. The new normal will merely represent an *ex post* reordering of priorities in a way that comports with the allies of the current administration. Investors will stop treating the muni market as being a safe bet, and the borrowing rates for townships and cities and parks will reflect the new reality of caveat creditor. Left on the hook will be the taxpayer, whose governments will pay sharply higher interest rates going forward. [Note, the legislation has yet to win passage.]

### **3. WHY I WOULD NEVER ENCOURAGE MY CHILDREN TO**

**BECOME POLICE OFFICERS:** Writing in [leoaffairs.com](http://leoaffairs.com), Patrick J. McGeehan, says being a cop is a great job, which he thoroughly loved for the first ten years or so. As a police officer, he was able to help countless people, made some of his best friends and become a member of a lifelong fraternity. He worked with people who he will never forget as long as he lives, people who on more than one occasion saved his life, came to his aid and stood by him in difficult times. There were also plenty of people he could not help -- people he could do absolutely nothing for but say a prayer over their body, people who met their maker in his presence by their own hand or that of another. These are the people that haunt him daily. When he was twenty years old, never had a real job in his life and he was given a gun, a modest amount of training and basically told to go forth and enforce the law, protect society and serve the community. He was a rookie policeman in Miami in the 1980's, a time when death and crack cocaine were everywhere. His father was a cop, his grandfather was a cop and his great uncle was a cop. He was the third generation in a line of cops, the first in his department and truly hoped to be the last of that line. His father was a cop in the 1960's, his grandfather and uncle in the 1940's and 1950's and all killed people in the line of duty. As a rookie, there were many old timers that killed in the line of duty, some more than once. He looked at these men in awe, sort of idolized them as old gunslingers of the Wild West. These men never spoke of their shootings; all such information came from rumors. One memory sticks out in particular, in the last years of his career; this person

worked the front desk at a regional substation. He was a devout Christian, read the Bible constantly during down time and never said more than five words to McGeehan when he worked with him. He was a big man, one that could easily beat you to death as sure as he could shoot you, yet he was quiet and gentle. Even in his last years on the job, he was nothing short of an intimidating physical presence. He never gave a thought to the emotional trauma these men were exposed to, they were crime fighters, and they showed no emotion. His father never spoke of his shootings and the only one he can recall was when he was about ten years old. His father shot and killed a man and was placed on three days administrative leave per policy, so they got to start their vacation three days early that year. It was not until many years later, when he had become a policeman and discovered what happened that night. His father did not tell him, he pulled the police report and read it for himself. His father was dispatched to a dispute between two males in a project area. When he arrived, one man armed with a knife chased another into a house. The subject had already stabbed the victim at least once. His father followed them in and in a dimly lit bedroom, no more than a few feet apart, three men's lives crossed and were changed forever. After ignoring commands to drop the knife, the subject was standing over the victim who had fallen on a bed, the knife was reared back, over his head ready to plunge into the victim again when his father fired. The subject was shot twice, once in the neck and once in the torso, and died. His father never spoke of this shooting, not when he was a child, not when he applied to be a police officer, not even when he

graduated the police academy -- never, ever. Then again, under the reigning school of thought he was not supposed to; his father, like many of his generation, they were expected to take their three days off and report back to work thereafter. They were not touchy, feely men, they were hardcore crime fighters, expected to do society's dirty work and feel nothing. Like many of these shootings, this shooting was close up and personal, only a few feet apart with time to look into the face of the life you are taking. The subject in his father's shooting was a bad guy, he was intent on killing his victim and this was a "good shooting", but is there ever really a good shooting? When McGeehan was a patrolman, he was dispatched to a call, reference a man lying on the side of the road. When he arrived he found an eighteen-year-old kid lying on the shoulder in a condition, technically termed in police language as "shot to shit." This kid had so many bullet holes in him he did not know how he was still alive. He stood over him, the only thing he could do is ask for an ETA on rescue, several times. Then he spoke, he asked him "is it bad?" He replied, "it ain't good." He asked him to tell his mother and he kneeled down next to him, wrote down his name, address and mother's name. He remembers feeling helpless, relieved when rescue finally arrived so someone could do something for this kid. He died at the hospital. He was not a good kid, he was a player in the drug trade and was taken out by a rival. He remembers everything about him, his name, where he lived, what he was wearing, how he sounded and the look of coming death in his eyes. He was three years younger, McGeehan was twenty-one. On October 30, 1993, he was at NW 54 Street and 7th Avenue when he

got a call from my homicide partner. One of McGeehan's classmates was shot in an armed robbery. She was beautiful, with two young children and was nothing less than a wonderful person. The subject took three dollars, a set of keys and his friend's life. She was thirty-four years old. He still visits her every chance he gets. McGeehan is a criminal defense and family law attorney in Miami. In addition to having over 20 years of law enforcement experience in the South Florida region, McGeehan was a police instructor in several areas as well as a court certified expert witness in D.U.I., speed measurement, accident reconstruction and other law enforcement fields. His children are eighteen and nineteen; both are in great colleges and thankfully pursuing other interests. If they decided to become police officers on their own, McGeehan would be supportive and proud, however if they ask for his counsel, he would give them the talk he did not get.

#### **4. HEALTH CARE COSTS EATING AWAY SOCIAL SECURITY**

**BENEFITS:** According to Nationwide Retirement Institute, unexpected health care costs and other life events have many recent retirees -- those retired 10 years or less -- wishing they waited to begin collecting their Social Security benefits. By drawing Social Security too early, many retirees are leaving money on the table that could help. The third annual NRI survey conducted online among 909 U.S. adults age 50 or older living in or approaching retirement finds that about one in four recent retirees (23%) would change when they started drawing Social Security to a later age. Of those recent retirees who would not change, 39% say they were compelled to draw when they did by a life

event. More than a third of current retirees (37%) say health problems keep them from living the retirement they expected -- and 80% of recent retirees say those health problems came earlier than expected. Health care expenses specifically keep one in four current retirees from living the retirement they expected. The average American claiming at 62 will spend about 61% of their monthly Social Security benefits on health care costs. That is why it is so important to optimize Social Security. Too many American workers need the money, but are missing out on hundreds of thousands of dollars in retirement income by not maximizing their benefit.

## **5. RECORDKEEPER DATA SHOW RETIREMENT PLAN**

**PARTICIPANTS CONTINUED TO SAVE IN 2015:** Americans continued to save for retirement through defined contribution plans in 2015, according to Investment Company Institute's latest study of retirement plan savers' actions. The study, "Defined Contribution Plan Participants' Activities, 2015," is based on DC plan recordkeeper data covering more than 26 million participant accounts in employer based DC plans. DC plan participants continued to contribute to their 401(k)s paycheck-by-paycheck in order to save and invest in their future, even as stock market prices changed little over the first half of the year, fell in the third quarter, and recovered in the fourth quarter. Here are some key findings:

- The vast majority of DC plan participants continued contributing to their plans. Only 2.6% of DC plan participants stopped

contributing in 2015, compared with 2.8% in 2014 and 2.7% in 2013.

- Most DC plan participants stayed the course in their asset allocations, as stock values were essentially flat for the year. In 2015, 9.7% of DC plan participants changed the asset allocation of their account balances and 7.6% changed the asset allocation of their contributions. These levels of reallocation activity were in line with reallocation activity observed over the past several years.
- DC plan withdrawal activity remained low and was in line with the prior years' activity. Only 3.4% of DC plan participants took withdrawals in 2015, compared with 3.6% in 2014 and 3.5% in 2013. Only 1.6% of DC plan participants took hardship withdrawals during 2015, similar to the past few years.
- Loan activity was slightly lower than a year earlier, though still elevated compared with seven years ago. At the end of December 2015, 17.4% of DC plan participants had loans outstanding, compared with 17.9% at the end of December 2014. Loan activity continues to remain elevated compared with seven years ago (at year-end 2008, 15.3% of DC plan participants had loans outstanding).

DC plans are an important component of Americans' retirement saving; assets in all DC plans represented more than one-quarter of assets in the total retirement market and accounted for about one-tenth of U.S. households' aggregate financial assets at year-end

2015.

## **6. TOP TWENTY HIGHEST-RETURN PUBLIC UNIVERSITY**

**ENDOWMENTS SINCE RECESSION:** A while back, trustedinsight.com published the university endowments that had achieved the highest return in the past five years ([See C & C Newsletter for March 24, 2016, Item 12](#)). The majority of these were private institutions, and only four were public universities. Now, trustedinsight.com has published a narrowing the angle and focusing on public schools only. While public universities receive state and federal subsidies, endowments have played an increasingly important role in recent years, particularly for institutions that have experienced cuts in government support. Therefore, investment returns on endowments have become a critical source of revenue to support these universities' programs. University of Virginia's \$7.53 billion endowment tops the list with a five year average return of 13.7%, followed second by the University of Minnesota endowment, at \$1.29 billion, which equals 11.7% over the same period. Here is the full list of 20 public universities with the best five year returns:

- University of Oklahoma Foundation (\$1.49 billion) 7.1%
- Georgia Institute of Technology/Georgia Tech Foundation (\$1.86 billion)8.3%
- University of Florida Foundation (\$1.56 billion) 8.8%
- Ohio State University (\$3.63 billion) 9.1%
- University of Kansas/KU Endowment Association (\$1.50 billion)

9.2%

- Texas A&M University/Texas A&M Foundation (\$1.40 billion)

9.26%

- University of Texas System/Permanent University Fund (\$17.84 billion) 9.4%
- Michigan State University (\$2.67 billion) 9.7%
- University of Missouri (\$1.40 billion) 10%
- University of Washington (\$3.08 billion) 10%
- University of Illinois Foundation (\$2.39 billion) 10.4%
- University of Iowa Foundation (\$1.27 billion) 10.7%
- University of Pittsburgh (\$3.61 billion) 10.7%
- University of North Carolina at Chapel Hill/UNC Management Company(\$4.64 billion) 10.8%
- University of Michigan (\$9.95 billion) 11%
- Indiana University (\$1.97 billion) 11.1%
- University of California (\$14.27 billion) 11.3%
- Pennsylvania State University(\$3.74 billion) 11.5%
- University of Minnesota Endowment(\$1.29 billion) 11.7 %
- University of Virginia/University of Virginia Investment Management Company(\$7.53 billion) 13.7%

**7. FPPTA 32ND ANNUAL CONFERENCE:** The Florida Public Pension Trustees Association's 32nd Annual Conference will take place on June 26 through June 29, 2016 at the Hyatt Regency Orlando on International Drive, Orlando. A link on FPPTA's web site,

[www.fppta.org](http://www.fppta.org), will take you to the Hyatt Regency Orlando website to make your room reservations. You may access information and updates about the Conference at FPPTA's website. All police officer, firefighter and general employee plan participants, board of trustee members, plan sponsors and anyone interested in the administration and operation of the Chapters 112, 175 and 185 pension plans should take advantage of this unique, insightful and informative program.

**8. 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: Procol Harum -- A Whiter Shade of Hair.

**9. AGING GRACEFULLY:** I do not need anger management. I need people to stop irritating me!

**10. TODAY IN HISTORY:** In 1947, Truman's veto of Taft-Hartley Act overridden by Congress.

**11. 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.

**12. 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>.

**13. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.**