



CYPEN & CYPEN
NEWSLETTER
for
JUNE 30, 2016

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Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS: Both Social Security and Medicare face long-term financing shortfalls under currently scheduled benefits and financing. Lawmakers have a broad continuum of policy options that would close or reduce the long-term

financing shortfall of both programs. The Trustees recommend that lawmakers take action sooner rather than later to address these shortfalls, so that a broader range of solutions can be considered and more time will be available to phase in changes while giving the public adequate time to prepare. Earlier action will also help elected officials minimize adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits. Social Security and Medicare together accounted for 41% of Federal program expenditures in fiscal year 2015. The unified budget reflects current trust fund operations. Consequently, even when there are positive trust fund balances, any drawdown of those balances, as well as general fund transfers into Medicare's Supplementary Medical Insurance fund and interest payments to the trust funds that are used to pay benefits, increase pressure on the unified budget. Both Social Security and Medicare will experience cost growth substantially in excess of GDP growth through the mid-2030s due to rapid population aging caused by the large baby-boom generation entering retirement and lower-birth-rate generations entering employment. For Medicare, it is also the case that growth in expenditures per beneficiary exceeds growth in per capita GDP over this time period. In later years, projected costs expressed as a share of GDP rise slowly for Medicare and are relatively flat for Social Security, reflecting very gradual population aging caused by increasing longevity and slower growth in per-beneficiary health care costs. The Social Security program provides workers and their families with retirement, disability, and survivors insurance benefits. Workers earn these benefits by paying

into the system during their working years. Over the program's 80-year history, it has collected roughly \$19.0 trillion and paid out \$16.1 trillion, leaving asset reserves of more than \$2.8 trillion at the end of 2015 in its two trust funds. The Bipartisan Budget Act of 2015 was projected to postpone the depletion of Social Security Disability Insurance Trust Fund by six years, to 2022 from 2016, largely by temporarily reallocating a portion of the payroll tax rate from the Old Age and Survivors Insurance Trust Fund to the DI Trust Fund. The effect of updated programmatic, demographic and economic data extends the DI Trust Fund reserve depletion date by an additional year, to the third quarter of 2023, in this year's report. While legislation is needed to address all of Social Security's financial imbalances, the need remains most pressing with respect to the program's disability insurance component. The OASI and DI trust funds are by law separate entities. However, to summarize overall Social Security finances, the Trustees have traditionally emphasized the financial status of the hypothetical combined trust funds for OASI and DI. The combined funds satisfy the Trustees' test of short-range (ten-year) close actuarial balance. The Trustees project that the combined fund asset reserves at the beginning of each year will exceed that year's projected cost through 2028. However, the funds fail the test of long-range close actuarial balance. The Trustees project that the combined trust funds will be depleted in 2034, the same year projected in last year's report. The projected 75-year actuarial deficit for the combined Old-Age and Survivors Insurance and Disability Insurance Trust Funds is 2.66% of taxable payroll, down from 2.68% projected in last

year's report. This deficit amounts to 1.0% of GDP over the 75-year time period, or 20% of program non-interest income or 16% of program cost. A 0.06 percentage point increase in the OASDI actuarial deficit would have been expected if nothing had changed other than the one-year shift in the valuation period from 2015 through 2089 to 2016 through 2090. The effects of recently enacted legislation, updated demographic and economic data, and improved methodologies decrease the actuarial deficit by 0.08% of taxable payroll, causing the small net improvement in the actuarial balance. Social Security's total income is projected to exceed its total cost through 2019, as it has since 1982. The 2015 surplus of total income relative to cost was \$23 billion. However, when interest income is excluded, Social Security's cost is projected to exceed its non-interest income throughout the projection period, as it has since 2010. The Trustees project that this annual non-interest deficit will average about \$69 billion between 2016 and 2019. It will then rise steeply as income growth slows to its sustainable trend rate as the economic recovery is complete while the number of beneficiaries continues to grow at a substantially faster rate than the number of covered workers. After 2019, interest income and redemption of trust fund asset reserves from the General Fund of the Treasury will provide the resources needed to offset Social Security's annual deficits until 2034, when the reserves will be depleted. Thereafter, scheduled tax income is projected to be sufficient to pay about three-quarters of scheduled benefits through the end of the projection period in 2090. The ratio of reserves to one year's projected cost (the combined trust fund ratio)

peaked in 2008, declined through 2015, and is expected to decline steadily until the trust funds are depleted in 2034. Under current projections, the annual cost of Social Security benefits expressed as a share of workers' taxable earnings will grow from 14.1% in 2015 to roughly 16.6% in 2038, and will then decline slightly before slowly increasing after 2050. Costs display a slightly different pattern when expressed as a share of GDP. Program costs equaled 5.0% of GDP in 2015, and the Trustees project these costs will increase to 6.0% of GDP by 2035, decline to 5.9% of GDP by 2050, and thereafter rise slowly reaching 6.1% by 2090. The Medicare program has two separate trust funds, the Hospital Insurance Trust Fund and the Supplementary Medical Insurance Trust Fund. HI, otherwise known as Medicare Part A, helps pay for hospital, home health services following hospital stays, skilled nursing facility, and hospice care for the aged and disabled. SMI consists of Medicare Part B and Part D. Part B helps pay for physician, outpatient hospital, home health, and other services for the aged and disabled who have voluntarily enrolled. Part D provides subsidized access to drug insurance coverage on a voluntary basis for all beneficiaries and premium and cost-sharing subsidies for low-income enrollees. The Trustees project that the Medicare Hospital Insurance Trust Fund will be depleted in 2028, two years earlier than projected in last year's report. At that time dedicated revenues will be sufficient to pay 87% of HI costs. The Trustees project that the share of HI cost that can be financed with HI dedicated revenues will decline slowly to 79% in 2043, and will then rise gradually to 86% in 2090. HI expenditure is projected to exceed

non-interest income throughout the projection period, as it has in every year since 2008. The HI fund again fails the test of short-range financial adequacy, as its trust fund ratio is already below 100% of annual costs and is expected to decline in a continuous fashion until reserve depletion in 2028. The HI Trust Fund's projected 75-year actuarial deficit is 0.73% of taxable payroll, which amounts to 0.3% of GDP through 2090, or 19% of non-interest income or 16% of program cost. This estimate is up from 0.68% of taxable payroll projected in last year's report. A 0.01 percentage point increase in the HI actuarial deficit would have been expected if nothing had changed other than the one-year extension of the valuation period to 2090. The remaining 0.04 percentage points worsening of the actuarial balance is primarily due to higher projected utilization rates and lower projected taxable payroll, especially in the near term. The HI trust fund depletion date of 2028 is two years earlier than projected last year despite the modest changes in projected long-term finances because the revisions to projected income and cost are concentrated in early years of the projection, and also because last year's report projected only modest positive trust fund balances in 2028 and 2029. For Supplementary Medical Insurance, the Trustees project that both Part B (which pays doctors' bills and other outpatient expenses) and Part D (which pays for prescription drug coverage) will remain adequately financed into the indefinite future because current law provides financing from general revenues and beneficiary premiums each year to meet the next year's expected costs. However, the aging population and rising health care costs cause SMI projected costs to grow steadily from

2.1% of GDP in 2015 to approximately 3.5% of GDP in 2037, and then more slowly to 3.8% of GDP by 2090. General revenues will finance roughly three-quarters of these costs, and premiums paid by beneficiaries almost all of the remaining quarter. SMI also receives a small amount of financing from special payments by States and from fees on manufacturers and importers of brand-name prescription drugs. The Trustees project that total Medicare costs (including both HI and SMI expenditures) will grow from approximately 3.6% of GDP in 2015 to 5.6% of GDP by 2040 and will increase gradually thereafter to about 6.0% of GDP by 2090. In recent years U.S. national health expenditure growth has slowed considerably. There is uncertainty regarding the degree to which this slowdown reflects the impacts of the recent economic downturn and other non-persistent factors or structural changes in the health care sector that may continue to produce cost savings in the years ahead. The Trustees are hopeful that U.S. health care practices are in the process of becoming more efficient as new payment models become more prevalent and providers anticipate less rapid growth of reimbursement rates in both the public and private sectors than has occurred during the past several decades. For a number of years, the methodology the Trustees have employed for projecting Medicare finances over the long term has assumed a substantial reduction in per capita health expenditure growth rates relative to historical experience. In addition, the Trustees have been revising down their projections for near-term Medicare expenditure growth in light of the recent favorable experience, in part due to effects of payment changes and delivery

system reform that are changing how health care is practiced. However, the Trustees have not assumed additional, specific cost saving arising from structural changes in the delivery system that may result from new payment mechanisms in the Medicare Access and CHIP Reauthorization Act of 2015 and the cost-reduction incentives in the Affordable Care Act, or from payment reforms initiated by the private sector. Notwithstanding the assumption of a substantial slowdown of per capita health expenditure growth, the projections indicate that Medicare still faces a substantial financial shortfall that will need to be addressed with further legislation. Such legislation should be enacted sooner rather than later to minimize the impact on beneficiaries, providers, and taxpayers. Lawmakers have many policy options that would reduce or eliminate the long-term financing shortfalls in Social Security and Medicare. Lawmakers should address these financial challenges as soon as possible. Taking action sooner rather than later will permit consideration of a broader range of solutions and provide more time to phase in changes so that the public has adequate time to prepare. To read the entire report visit: <https://www.ssa.gov/OACT/TR/2016/>.

2. RETIREMENT ASSETS TOTAL \$24.1 TRILLION IN FIRST QUARTER 2016: Investment Company Institute reports total U.S. retirement assets were \$24.1 trillion as of March 31, 2016, up 0.6% from the end of December. Retirement assets accounted for 34% of all household financial assets in the United States at the end of the first quarter of 2016. Assets in individual retirement accounts totaled

\$7.4 trillion at the end of the first quarter of 2016, an increase of 1.0% from the end of the fourth quarter of 2015. Defined contribution plan assets rose 1.7% in the first quarter of 2016 to \$6.8 trillion. Government defined benefit plans -- including federal, state, and local government plans -- held \$5.1 trillion in assets as of the end of March, a 0.8% decrease from the end of December. Private-sector DB plans held \$2.8 trillion in assets at the end of the first quarter of 2016, and annuity reserves outside of retirement accounts accounted for another \$2.0 trillion. Americans held \$6.8 trillion in all employer-based DC retirement plans on March 31, 2016, of which \$4.8 trillion was held in 401(k) plans. In addition to 401(k) plans, at the end of the first quarter, \$517 billion was held in other private-sector DC plans, \$876 billion in 403(b) plans, \$267 billion in 457 plans, and \$434 billion in the Federal Employees Retirement System's Thrift Savings Plan. Mutual funds managed \$3.7 trillion, or 54%, of assets held in DC plans at the end of March 2016. With \$2.2 trillion, equity funds were the most common type of funds, followed by \$915 billion in hybrid funds, which include target date funds. IRAs held \$7.4 trillion in assets at the end of the first quarter of 2016, up 1.0% from the end of the fourth quarter of 2015. Forty-seven percent of IRA assets, or \$3.5 trillion, was invested in mutual funds, predominantly in equity funds (\$1.9 trillion). As of March 31, 2016, target date mutual fund assets totaled \$790 billion, an increase of 3.5% in the first quarter. Retirement accounts held the bulk of target date mutual fund assets: 88% of target date mutual fund assets were held through DC plans (68% of the total) and IRAs (21%).

3. FIVE REASONS STUDENT LOAN REPAYMENT IS THE NEXT

BIG BENEFIT: Student loan repayment has been getting some increased attention in the benefits world. And it will continue to get even more, says employeebenefitnews.com. Here are 5 reasons why student debt repayment is going to become the new hot benefit trend that employers will offer -- and employees will jump on:

- It has universal appeal. It is super bipartisan, it is pro-consumer and it is pro-business. People like it, employers go over the moon for this.
- It is a great retention tool. Just like benefits that have come before it, student loan repayment has the potential to be a great tool for recruiting and keeping talented employees. Employers are offering this because the talent war race is real. It will recruit, retain and engage employees.
- It requires little education. It is easy to offer because everyone can acknowledge this is a problem worth fixing. There is not a lot of education or convincing needed on this. It is unlike a health savings account, in which employers and advisers have to spend a lot of time and energy explaining how it works or why it helps.
- It helps different demographics of employees. Student debt repayment programs are an obvious appeal for millennials, who are entering the workforce massively in debt. On average, statistics show, students graduate with about \$30,000 in student loan debt. But, these programs are also important for older

workers. In fact, 35% of all student debt is held by people over the age of 39. And a lot of them, too, have Federal Parent PLUS Loans, loans for parents to help finance their children's college education.

- It will help with retirement goals. Dealing with student debt will also motivate employees to start contributing to their 401(k), which often gets put on hold when student debt bills pile up.

4. GALAXY AT YOUR FINGERTIPS, NOT FAR FAR AWAY: This past winter, Americans of all generations awakened to the newest film in the Star Wars franchise, Star Wars: The Force Awakens. Many readers probably remember seeing the first Star Wars film in theaters in 1977. The advanced technology used by the Jedi and Sith in a galaxy far, far away seemed light years away. While we still do not have interstellar travel, personal robots, or holographic communication, we now use technology like the Internet and smart phones that would have seemed straight out of science fiction in 1977. The Social Security Administration wants you to experience an awakening when you use their online services. SSA continually expands their online services to reflect changing customer needs, and to provide you with world-class service. SSA's online services are convenient, secure, and allow you to conduct much of your business with them from the comfort of your own home, office, or starship. For instance, you can use SSA's website to apply for retirement, spouses, or disability benefits online. You can also apply for Medicare and Extra Help with your Medicare prescription drug costs on SSA's

website, and use SSA's online benefit planners to help you calculate your retirement, disability, and survivors benefits. You can open a free personal online my Social Security account where you can keep track of your annual earnings and verify them. You can also get an estimate of your future benefits, if you are still working. If you currently receive benefits, you can use your account to manage your benefits, get a letter with proof of your benefits, or request a Medicare card replacement. In some areas, you can even use your account to request a replacement Social Security card. "The force is calling to you. Just let it in." Today, check out SSA's online services and join the millions of other Americans who reach out and touch the stars. Learn more at www.socialsecurity.gov

5. AMERICANS FEEL A DOWNSIDE OF LIVING LONGER: While Americans are optimistic about the prospect of living an average of 30 extra years, 70% feel financially unprepared to live to 100 and beyond, according to a new study from Allianz Life Insurance Company of North America. Millennials and Generation X have time on their side when it comes to pursuing their dreams, but that gift comes with significant angst. More than three-quarters (79%) of Gen Xers reported feeling financially unprepared for living a longer life, while 74% of Millennials had the same concerns. Baby Boomers are not immune to worry either -- 57% reported that they feel financially unprepared. When respondents were asked to finish the sentence, "following your dreams is all well and good, but you need to have...", the top two barriers chosen were enough money (57%) and a good

financial plan (50%). The biggest regret reported (or potential future regret for Millennials) was not saving more money (52%) which ranked above not traveling more (38%) and not spending more time with their kids (32%). As respondents considered their extra years, 45% said that uncertainty most closely described their feelings about the future. This uncertainty is echoed by the fact that more than half (51%) identified having enough money to last my whole life as a very big problem when they thought about living to age 100. Having a solid financial plan addressing longevity can remove major barriers for many Americans, allowing them to take risks that ultimately lead to a more fulfilled life. According to the study, more than half (51%) of respondents believed they would need to better plan their spending and saving, or live more modestly to fund all the things they want to do in life. More than one-third (37%) even acknowledged that they may need to work longer/retire later to meet their financial needs. To make the most of their 30 extra years, respondents found it important to change the amount of money they save, how they fund their entire life (including short-term goals), and the level of discipline they need to follow a financial plan. In addition to the solutions people identified when planning for longevity, the study found that having a financial professional could add support and reassurance. Respondents who had a financial professional reported being happier (79%) with their major life choices (such as their profession and when and where they worked or did not, *etc.*) compared to 64% of those who were happy with their major life decisions but did not have a financial professional. Despite that fact, the majority (72%) of respondents reported not

having a financial professional. But these respondents would be more willing to seek one if the financial professional helped them find solutions that could create guaranteed income for life (47%), helped plan for and fund a longer life (34%), and helped with finances throughout life stages (31%). Americans also support living life in a new, nontraditional order -- especially if the barriers holding them back are addressed. When asked what got in the way of following a different approach for when and how they made major life decisions, worries about money was the top choice for 46%, life events got in the way for 33%, and 22% cited lack of a clear plan for how to go about it or fear of failure getting in their way. With the right longevity plan, people who avoid making alternative choices because of money could reconsider their future, as many respondents recommended doing. Sixty-five percent admitted that it was better to explore, experiment and travel earlier in life by changing when and how they learned, worked, married or raised kids. The survey also found that instead of taking a traditional path (going to school, working, getting married, having kids and retiring), almost half (49%) of respondents were open to a nontraditional model that was unique to their interests.

6. SOCIAL SECURITY RAISE FOR 2017 LOOKS SLIM: According to a piece in the *USA TODAY*, if you asked a Social Security recipient for a penny for his thoughts on next year's projected 0.2% cost of living adjustment, they could give it to you, but they would only have \$1.99 to spare. That is because the small increase equals only an extra \$2 a month for someone getting a \$1,000 check, based on

estimates currently released. That is after Social Security recipients saw no raise at all for 2016. The final figure for 2017 is due for release this fall. Cost-of-living increases are based on the nation's rate of inflation, and the prices for the goods and services used to calculate that barely have budged. Yet experts say the actual cost of living for Social Security beneficiaries is rising and their quality of life is falling. Recipients have lost nearly a fourth of their buying power over the last 15 years, according to the Senior Citizens League. Here are some tips to make it work:

- **Cut back spending.** Given housing represents more than one-third of their expenses, older Americans might look for ways to free up the equity in their homes by downsizing or taking out a reverse mortgage, or look into options such as home-sharing.
- **Increase income.** On average, older Americans get about 34% of their income from Social Security; 33% from earnings; 11% from personal assets such as IRAs and 401(k)s; and 22% from pensions. To boost income, they could invest more aggressively in higher-yielding and perhaps more risky assets, such as long-term bonds and high-dividend-paying stocks; go back to work; or if they are still working, take on more hours.
- **Pressure the politicians.** "Candidates who do not take a stand on Social Security in this important election year choose to put the program's strength at risk in the long term.

7. SOCIAL SECURITY TRUST FUND STILL PROJECTED TO LAST THROUGH 2034: The annual report of the Social Security Trust

Funds indicated that total assets of the OASDI Trust Funds increased by \$23 billion in 2015 to a total of \$2.82 trillion according to plansponsor.com. The combined trust fund reserves are still growing and will continue to do so through 2019. However, beginning in 2020, the total cost of the program is expected to exceed income. In order for the combined OASDI funds not to become depleted in 2034, Congress will need to take some action, said the Social Security Administration. The acting Commissioner of Social Security was pleased that Congress passed legislation, last November, to avert a projected shortfall in the Disability Insurance Trust Fund. With the small, temporary reallocation of the Social Security contribution rate, the DI fund will now be able to pay full disability benefits until 2023, and the retirement fund alone will still be adequate into 2035, the same as before the allocation. Now is the time for people to engage in the important national conversation about how to keep Social Security strong. The report also indicated that total income to the OASDI Trust Funds was \$920 billion in 2015, while total expenditures were \$897 billion to a total of 60 million Social Security beneficiaries. The projected actuarial deficit over the 75-year-long projection is 2.66% of taxable payroll, 0.02 percentage points smaller than last year's report. During 2015, 169 million working Americans contributed to Social Security through their payroll taxes.

8. FINANCIAL TRAPS NEW COLLEGE GRADUATES SHOULD

AVOID: As college seniors across the nation graduate and start their careers, their financial lifestyle should be top of mind, says the

American Bankers Association. ABA has highlighted six traps new college graduates should avoid to fortify their finances as they transition from the dorm to the office. Now is the time for college grads to get their financial life started on the right foot. When it comes to managing your finances in the real world, pulling an all-nighter is not the best strategy. Forming positive financial habits today will set you up for lifelong success. According to ABA, new college graduates should avoid the following financial traps:

- Not having a budget. Do not spend more than you make. Calculate the amount of money you are taking home after taxes, then figure out how much money you can afford to spend each month while contributing to your savings. Be sure to factor in recurring expenses such as student loans, monthly rent, utilities, groceries, transportation expenses and car loans.
- Forgoing an emergency fund. Make it a priority to set aside the equivalent of three to six months' worth of living expenses. Start putting some money away immediately, no matter how small the amount. A bank savings account is a smart place to stash your cash for a rainy day. Use your tax refund for this instead of an impulse buy.
- Paying bills late or not at all. Each missed payment can hurt your credit history for up to seven years, and can affect your ability to get loans, the interest rates you pay and your ability to get a job or rent an apartment. Consider setting up automatic payments for regular expenses like student loans, car payments

and phone bills.

- Racking up debt. Understand the responsibilities and benefits of credit. Shop around for a card that best suits your needs, and spend only what you can afford to pay back. Credit is a great tool, but only if you use it responsibly.
- Not thinking about the future. It may seem odd since you're just beginning your career, but now is the best time to start planning for your retirement. Contribute to your employer's 401(k) or similar account, especially if there is a company match. Invest enough to qualify for your company's full match it is free money that adds up to a significant chunk of change over the years.
- Ignoring help from your bank. Most banks offer online, mobile and text banking tools to manage your account night and day. Use these tools to check balances, pay bills, deposit checks, monitor transaction history and track budgets.

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: Leo Sayer -- You Make Me Feel Like Napping.

10. AGING GRACEFULLY: Old age is coming at a really bad time!

11. TODAY IN HISTORY: In 1936, "Gone With the Wind" by Margaret Mitchell, published.

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.