



**CYPEN & CYPEN**  
**NEWSLETTER**  
**for**  
**JUNE 9, 2016**

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Never Forget September 11, 2001

and

Always Remember May 2, 2011

**1. NYC REACHES PENSION DEAL WITH THREE UNIFORMED UNIONS -- NOT INCLUDING PBA:** According to [nydailynews.com](http://nydailynews.com), the de Blasio administration has reached a deal with three unions reporting uniformed city workers, including members of the FDNY, that boosts disability pensions for some workers. But the deals, announced by City Hall, do not include the Patrolmen's Benevolent

Association, the city's largest New York Police Department union. It does cover the Uniformed Firefighters Association, the Correction Officers Benevolent Association and the Uniformed Sanitationmen's Association Local 831 IBT. Under the terms of the deal, workers hired after April 1, 2012, will receive three quarters of their salaries if they are injured in the line of duty. Previously, those Tier 6 employees were only entitled to 50% of their salaries because of budget cuts during the global recession. To pay for it, workers will contribute a set amount towards those disability pensions, ranging from 5% for firefighters to 3.9% for correction workers. The correction and sanitation workers will pay for their benefits completely through the contributions, while the city will kick in extra to cover the firefighters, who tend to suffer more line-of-duty injuries. Officials estimate it will cost the city \$6.1 million in 2017, and grow to \$12.6 million by 2021. The PBA said they will continue to fight for a bill in Albany to boost pension benefits. Members cannot be made to pay more than their fair share to cover the Mayor's political debts, said PBA president.

## **2. EMPLOYEES WILLING TO PAY MORE FOR RETIREMENT**

**BENEFITS:** Twenty-three percent of U.S. employees surveyed by Willis Towers Watson say they will have to work past age 70 to live comfortably in retirement according to plansponsor.com. Nearly one-third (32%) anticipate retiring later than previously planned, and another 5% do not think they will ever be able to retire. According to the survey, while the average U.S. employee expects to retire at age 65, they admit there is a 50% chance of working to age 70. Nearly

eight in 10 workers indicate they will rely on their employer-sponsored retirement plan(s) as the primary vehicle they use to save for retirement. According to the survey, more than six in 10 (62%) respondents would be willing to pay more out of their paychecks for more generous retirement benefits; 63% would be willing to pay more for a certain benefit at the point of retirement. Employers should take this opportunity to personalize their real-time decision-making support and recalibrate default enrollment to close the gaps in employee understanding about savings amount required and costs in retirement. Many employees who expect to work longer may not be able to due to stress or health issues. Forty percent of employees expecting to retire after age 70 have high or above average stress levels, compared with 30% of those expecting to retire at 65. For those planning to retire after age 70, less than half (47%) say they are in very good health, while nearly two-thirds (63%) of those retiring at age 65 state they are in very good health. The survey also found 40% of employees planning to work past 70 feel they are stuck in their jobs, compared with just one-quarter of those who expect to retire at 65 (28%) or before 65 (27%). Twenty-four percent of employees younger than 30 believe they will retire in their 70s or later, increasing to 28% of those in their 30s and one-third (33%) of those in their 40s. The percentage of U.S. men age 65 or older who are working has grown from 15% in 2003 to 22% last year.

**3. COST OF TAX BREAKS FOR STATES AND LOCALITIES MAY BE EXPOSED:** If approved, a new rule would make it easier for

groups to challenge the tax exemptions that state and local governments get from the feds. *Governing* says a proposed change in financial rules would shed more light on what the federal government gives up in tax breaks to state and local governments. It would provide ammunition to groups that want to reduce those benefits as a way of eliminating the federal budget deficit. The new rule, proposed by the Federal Accounting Standards Advisory Board, would require feds to include in annual financial reports, the "revenue impact" (but not a precise calculation) of all Washington's lost revenue from tax breaks. The U.S. Treasury Department already estimates the cost of these expenditures, but they are not included in federal annual financial reports. According to the Treasury Department, the provision that lets filers deduct their state and local income and property taxes from the income they declare to the federal government cost \$84 billion in lost revenue just this last year. An additional \$32 billion accounts for state and local governments' much-beloved tax exemption for municipal bonds, which critics have been trying to repeal for years. But the largest federal deduction, by far, is the one employers get for their contributions to employee health insurance premiums and medical care. That cost the feds \$211 billion in lost revenue this year. For a perspective, the federal budget is a little under \$4 trillion, while the budget deficit is a little over \$500 billion. *Governing* says the change would draw more attention to the particularly big areas of deductions and exemptions, and help critics of those expenditures make a case for getting rid of them. Both Congress and the President have proposed limiting or repealing the

tax exemption for muni bonds, but state and local government groups have lobbied hard to keep it. That is because the benefit allows states and municipalities to offer a lower interest rate on those bonds, meaning it costs less for them to finance infrastructure projects. A study last year found that the tax exempt status of muni bonds has saved governments an estimated \$714 billion in extra interest payments from 2000 to 2014. The idea of limiting or taking away the ability of people to deduct their state and local income and property taxes from the income they declare to the federal government has been less prevalent but has nevertheless been part of discussions about overhauling the federal tax code. The new accounting proposal, however, is not meant to attack any of the federal government's tax breaks. It simply aims to give those tax policies context. Because tax expenditures are not explicitly reported as appropriations or displayed in other financial statements, shedding light on them would allow users to gain a more complete understanding of the service efforts, costs and factors impacting federal revenues. The proposal is open for comments until September 15, 2016, *Governing* anticipates that it will be criticized for politicizing the financial report just as the Governmental Accounting Standards Board was criticized for a new rule requiring governments to report tax expenditures related to economic development incentives. Read the documents for comment, including exposure drafts, at <http://www.fasab.gov/documents-for-comment/>.

**4. IS SOCIAL SECURITY DISABILITY TAXABLE?:** This factoid

comes from *The Motley Fool* via onwallstreet.com. Recipients may pay taxes on their Social Security Disability Insurance benefits if 50% of the benefits and their other income exceeds \$25,000 (for singles), or \$32,000 (for couples filing joint returns). If they receive Social Security disability benefits under the Supplemental Security Income program, clients will face no tax liability since the program is for those who have limited income and financial resources.

**5. PENTAGON MOVES TO SET TROOPS STRAIGHT ON NEW MILITARY RETIREMENT PLAN:** *MILITARYTIMES* reports that the Defense Department has begun to educate military leaders, rank-and-file service members and their families about the coming changes to its retirement plan, a months-long effort to provide personnel with enough financial literacy to competently navigate its new "blended" system. ([See C & C Newsletter for November 12, 2015, Item 3](#)). The first of four programs is called the "Leader Course." It is available to anyone and does not require access with a Common Access Card. It provides an introduction to and an overview of the new blended retirement system, with information about who is affected, and the options available to them. Deployed service members' commands will receive CD-ROM courses. The training program will begin in earnest this summer. The Army, for example, has a public relations campaign to inform soldiers and family members what will happen. The new retirement system will mean smaller pension checks but will include matching cash contributions to service members' Thrift Savings Plan accounts -- much like a 401(k) plans offered in the private sector. For

the first time, troops who leave the military before 20 years of service will have some limited retirement benefits to take with them. The critical, more detailed course for those who are most affected by the change, those with fewer than 12 years of service by December 31, 2017, will be rolled out in January. Participants have the option of switching to the new retirement system or staying with the old. The course is still in development, but will include a tool that lets troops plug in their own data to help them make their decision. Troops will be able to enter numbers such as varying retirement dates and Thrift Savings Plan rates of contribution to determine which choice would be better for them in the long term. No one has to make a decision about these issues and in 2016 or 2017. But in 2018, service members in the active and reserve components who entered the military after January 1, 2006 -- about 1.6 million people -- will have to decide whether to stay with the current retirement system or move to the new retirement system signed into law in November, 2015. Troops can make the choice beginning January 1, 2018; the deadline for making the decision will be December 31, 2018. It is an "opt-in" situation for the troops in this category. If they do not opt in to the new situation, they will automatically stay in the old retirement system. Those with more than 12 years of service by the beginning of 2018 will automatically remain in the current retirement system.

## **6. THE GOOD NEWS ON CHICAGO'S UNDERFUNDED**

**PENSIONS:** Among the noise over the state's financial issues and unfunded pension liabilities, what has gone unnoticed is an example

of local progress, local control and local work. When the Illinois General Assembly rose to override Governor Bruce Rauner's veto of Chicago's police and fire pension funding bill, it marked another significant step toward addressing decades-old financial challenges. The impact of the bill is far greater than most people realize, says *Crain's Chicago Business*. Together, the General Assembly's vote, the City Council's action to provide revenue to fund police and fire pensions and a new agreement to reform the Laborer's pension fund mean there are now three of four severely underfunded pension funds on the path to solvency, without forcing Chicago's taxpayers to bear the burden of an unnecessary property tax increase. While there is work to do, it is a remarkable turnaround from the conventional wisdom about Chicago's financial future of just a few years ago. It is a clear indication of the real financial progress the city has made. Despite limitations imposed by the Illinois Supreme Court, Mayor Rahm Emanuel and his team at the city crafted a plan for pensions that protects future taxpayers from paying more than they should and responsibly funds both the large unfunded liabilities inherited (through increased city contributions) and future benefit costs (through increased contribution levels for new city employees). This construct is the basis of the city's agreement with its partners in labor, ensuring the long-term stability of the Laborers' pension fund. The city is working to apply the same approach to the pension fund that covers the remainder of the city's workforce. Already there have been discussions with the 32 labor unions representing these workers. While additional revenue must also be a part of this solution as well

and the city has already shown a willingness to step up, revenue alone cannot be the only answer. Progress on pension funding builds on the financial foundation the mayor has laid over the last five years, moving Chicago closer to achieving its ultimate goal of job creation and economic growth in every neighborhood of our city. Consider some of milestones that have been made:

- Five years ago, Chicago's structural deficit had spiked to more than \$654 million. Today, as a result of such cuts, there have been reforms, revenue and new growth, and the structural deficit of the city has been reduced to half in 2016 -- and by 2019 it will be eliminated once and for all.
- In the past, Chicago relied on financial practices such as raiding long-term reserves for operations, selling off assets, and something called "scoop and toss." In reality "scoop and toss" is simply meeting short-term obligations by pushing debt further out into the future and at a higher cost to the taxpayers. But the city is phasing it out. It has already been reduced by \$100 million this year and by 2019, it will also be eliminated from the budget entirely.
- Today, all variable rate debt has been converted to fixed rate debt, which protects taxpayers from rising interest rates and changing economic conditions.

Progress has been made, but work is not complete. Progress will be built through the mayor's model of revenue and reform -- and by recognizing that if everyone steps up a little, nobody has to give too

much. It is not an easy task, but Chicago will be put back on solid financial footing to ensure people's ability to invest in their most important priorities in the years ahead.

**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: Paul Simon -- Fifty Ways To Lose Your Liver.

**9. AGING GRACEFULLY:** I did not make it to the gym today. That makes five years in a row.

**10. TODAY IN HISTORY:** In 1954, Joseph Welch asks Senator Joseph McCarthy "Have you no sense of decency, sir?" during

Senate-Army hearings.

**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.**