



CYPEN & CYPEN
NEWSLETTER
for
SEPTEMBER 29, 2016

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Never Forget September 11, 2001
and
Always Remember May 2, 2011

1. IRS ANNOUNCES SPECIAL PER DIEM RATES FOR TRAVEL AWAY FROM HOME ON OR AFTER OCTOBER 1, 2016: The Internal Revenue Service has announced the special per diem rates that can be used to substantiate the amount of business expenses incurred for travel away from home on or after October 1, 2016. Employers using these rates to set per diem allowances can treat the amount of certain categories of travel expenses as substantiated

without requiring that employees prove the actual amount they spent. (Employees must still substantiate the time, place, and business purpose of their travel expenses.) The amount deemed substantiated, however, will only be the lesser of the allowance actually paid or the applicable per diem rate for the same set of expenses. This notice announces rates for use under the optional high-low substantiation method, special rates for transportation industry employers, and the rate for taxpayers taking a deduction only for incidental expenses. General guidance issued in 2011 regarding the use of per diems remains in effect. For travel within the continental United States, the optional high-low method designates one per diem rate for all high-cost locations and another for all other locations. Employers can use the high-low method for substantiating lodging, meals, and incidental expenses, or for substantiating meal and incidental expenses only. Beginning October 1, 2016, the high-low per diem rates that can be used for lodging, meals, and incidental expenses will increase to \$282 for travel to high-cost locations and \$189 for travel to other locations. The high-low rates have not changed from \$68 for travel to high-cost locations and \$57 for travel to other locations. Seven locations have been added to the list of high-cost locations, two have been removed, and several that remain on the list are now considered high-cost for a different portion of the calendar year. While they cannot use the high-low method, self-employed persons and employees who are not reimbursed can use other per diem rates to compute the amount of their business expense deduction for business meals and incidental expenses (but not lodging), or for incidental expenses alone. The

special rate for the incidental expenses deduction that applies beginning October 1, 2016 is unchanged at \$5 per day. N-2016-58 (September 27, 2016).

2. FIVE AMERICAN CITIES WHERE YOU CAN RETIRE ON JUST SOCIAL SECURITY:

The statistics on how unprepared Americans are for retirement can be terrifying according to benefitnews.com. The median retirement account balance is \$2,500 for all working-age households and \$14,500 for near-retirement households, according to a 2015 study by the National Institute on Retirement Security. The report finds that two-thirds of working families fall short of conservative retirement savings targets for their age and income based on working until age 67. With virtually no retirement savings for the average working household, and 45% (nearly 40 million) of working households not having any retirement assets, their best hope for surviving after age 67 may be income from Social Security. The average monthly Social Security check as of June 2016 was \$1,234, according to the Social Security Administration. While the average monthly benefit was \$1,234, 82% of beneficiaries receive a little more -- \$1,280 from "Old-Age and Survivors Insurance." The largest average monthly SSA benefit was \$1,348 for retired workers, who made up 67% of the pool. Assuming you are a retired worker receiving the average \$1,348 each month from SSA. That is still a low amount of money to live on each month, considering that a retirement planning rule of thumb is to plan on having 70%–80% of your pre-retirement income replaced with SSA, a retirement account, or other

form of income in your old age. At 80%, that \$1,348 would equate to a pre-retirement monthly income of \$1,685, or \$20,220 per year. If you were comfortable living on \$20,220 per year before retirement, then living on 80% of it during retirement should be just as comfortable, the theory goes. For a couple who are both retired, their SSA income would double to \$40,440 per year. So, where to live on the average SSA check of \$1,348 per month for retired workers? In no particular order, here are five cities where it is affordable.

- **Buffalo, New York.** Buffalo may come as a surprise for being a cheap place to live because it is in New York state. But the median monthly rent in Buffalo is \$512, making it the cheapest city in the U.S. to live in. Buffalo also has the lowest cost of living at 79.34, meaning that the U.S. average is 100 and that \$100 in groceries, for example, would cost \$79.34 in Buffalo.
- **Johnstown, Pennsylvania.** If you are looking for the cheapest rent in the country, this city of 20,576 residents has it with a gross median rent of \$466 per month, according to data from the U.S. Census. Since housing is one of the biggest expenses in life, such low rent can make other expenses more affordable.
- **Memphis, Tennessee.** Another large U.S. city that is affordable in retirement, is Memphis. This city of 653,450 has low housing costs. The average apartment rent of \$709 per month is 21% below the U.S. average, and the median home value of \$98,300 is 46% below the U.S. average.

- **Akron, Ohio.** Living in the center of the country is usually cheaper than it is elsewhere, and Akron, Ohio proves that point by being one of the most affordable places to live in the country. Its median home price listing in August 2015 was \$120,450, and the median household income was \$45,628 -- putting the average SSA income at just below the median. The amount of monthly income spent on housing, utilities, and commuting in Akron was 28.9%, allowing retirees to spend about 70% of their income on other things.
- **Indianapolis, Indiana.** Listed as one of the best cities to move to for a high-paying job, Indianapolis has low home prices for Millennials looking for work and for retirees, too. The median home price of \$130,000 is \$58,900 below the median home price in America. That allows about two-of-every five renters to be able to afford a typically priced home there. For retirees who sell their homes and have enough money to buy a home outright or put down a large down payment, then living with little or almost no housing costs can leave a lot of room in their budget for other things.

The good news is that there are plenty more U.S. cities that are affordable for retirees who only have an income from Social Security. These are only five of them, and are a good start to investigate more when deciding on the cheapest places to retire.

3. IT IS ALL ABOUT INCOME: It is a rare week when there is not a

new research or media report about the retirement crisis facing American workers -- and there are usually several. Inadequate savings; poor (or no) planning; little understanding of the impact of rising health care costs, longevity, and inflation; over-reliance on, and misconceptions about, Social Security -- the list goes on. The Insured Retirement Institute has published an Inaugural Study on the American Retirement Experience entitled "*It's All About Money.*" Still, an internet search for stories on "buying a new car" yields 50% more articles than does a search on "planning for retirement" -- current consumption wins out over securing the future. Small wonder that the IRI report, "*Boomer Expectations for Retirement 2016,*" found that only 55% of Boomers have retirement savings, 59% see Social Security as a major source of income, and only 23% expect significant income from a defined contribution plan. Yet, 60% believe their income will cover basic expenses, and provide disposable income for travel and leisure. Those who enter retirement with no savings, no pensions and no income beyond Social Security will find it difficult to reconcile their expectations with their resources, and will likely need to continue working, if they are able, or be forced to accept a lower standard of living than they expect. But what about those in retirement, and in particular those who had meaningful savings when they retired? The study examines the lifestyles, financial condition, experiences and expectations of Americans who have lived in retirement for several years, and who had at least \$50,000 in investable assets when they retired. Overall, these retirees are doing quite well, but their story carries a few cautionary tales for future

generations, especially pre-retired Baby Boomers and GenXers. Current retirees, and specifically those who retired with more than a token amount of investable assets, appear to be in surprisingly good shape by a number of measures: financial assets, expenses, and health status. Moreover, their own assessments of their retirement lives is overall quite positive, and most feel that retirement is more or less as they expected -- they do not feel blindsided by unpleasant surprises, their outlooks are bright, and for the most part they do not have regrets about their paths to retirement. However, there are some erosive factors in play that may negatively impact retirees in their later years, and their positive experiences and outlooks are anchored in a rapidly disappearing aspect of the American retirement experience: the defined benefit pension. Here are some key observations of the study:

- Almost all study participants have current household income of \$50,000 or more, compared to the national median family income for persons aged 65 and older of \$43,000.
- Pensions provided at least 50% of total income for more than four-in- 10 retirees. A retiree would need to invest as much as \$485,000 in a life-only annuity to replace this level of pension income. In contrast, currently only 24% of private-industry workers are covered by a defined benefit pension plan.
- About three-in-10 retirees receive income from an annuity, with two-thirds of them receiving life or life-contingent payments.

- More than seven-in-10 retirees who receive income from an annuity are very or somewhat satisfied with their annuity, more than any other investment type.
- Six-in-10 retirees filed for Social Security prior to age 65, before their full-retirement age, significantly reducing monthly benefits.
- Fewer than 10% of retirees have worked, or planned to work, during retirement.
- More than half of retirees tried to estimate their retirement expenses prior to retiring.
- Nearly half of retirees consulted with a financial professional prior to retiring, but only 22% set a savings goal, and fewer than one-in-five established a written retirement plan.
- More than six-in-10 retirees did not sell a home or relocate upon retiring.
- More than half of retirees say the reason they have withdrawn from retirement accounts is to satisfy Requirement Minimum Distribution rules, the most common reason cited.
- Half of retirees in the survey have between \$100,000 and \$500,000 in investable assets (excluding real estate).
- Eight-in-10 retirees feel their financial condition is as good, or better, than they expected it would be when they retired.

- Seven-in-10 retirees are not too, or not at all, concerned about exhausting their financial resources during retirement.
- 40% of retirees with less than \$100,000 in retirement savings are somewhat or very concerned about inflation, versus only 20% with savings of \$100,000 or more.
- 40% of retirees have experienced a major health event, such as a heart attack or stroke. Of these retirees, seven-in-10 say they incurred \$5,000 or less in out-of-pocket costs.
- 25% of retirees have experienced a significant, non-medical negative event, such as a major home repair. Nearly half say they incurred \$25,000 or more in out-of-pocket costs.
- Only one-in-three retirees planned for spousal income before or at the point of retirement. Now in retirement, as many as 90% have since made plans for spousal income.
- Two-thirds of retirees believe they have a less than 25% chance of needing long-term care services in retirement, compared to Department of Health & Human Services estimates that 70% of those turning 65 today will need such services.
- Six-in-10 retirees incorrectly believe that Medicare will pay for long-term care services.

To read the entire study, visit:

<https://www.myirionline.org/docs/default-source/research/iri-income->

[report-final.pdf?sfvrsn=2](#). (September 2016.)

4. HOW TO CALCULATE THE VALUE OF YOUR BENEFITS:

Financial Finesse says are you overlooking the real value of your benefits when you think about your compensation? According to the Bureau of Labor Statistics, benefits accounted for 31.4% of employer paid compensation for U.S. workers in June 2016, with salary making up the other 68.6%. It is “open enrollment” season, the time of year when employees make decisions about their health insurance and other employee benefits for the upcoming year. While you are weighing your options, it is a good time to practice some benefits appreciation. One way to do this is to estimate how much the benefits you choose are worth to you:

- **Health Insurance (typically \$5,000-\$30,000).** Your health insurance is a significant component of your benefits. How can you value what your employer contributes for you and your family, as well as the discount you receive on coverage for participating in a large group plan? According to the 2016 Milliman Medical Index, the cost of healthcare for a typical American family of four covered by an average employer-sponsored preferred provider organization (PPO) plan is \$25,826, with employers typically picking up 57% of the cost. That means that participation in their company sponsored health care plan is worth at least \$14,721 for that typical family at the typical employer. Of course your insurance costs may be

different, and your employer may subsidize more or less of that. More and more employers are also offering high deductible health plans in conjunction with a health savings account. In many cases, they are contributing to the employee's HSA as well. HSAs are a widely misunderstood and underrated benefit, and if you fully utilize your HSA, the long term tax advantages can be a benefit to you in retirement.

- **Retirement Plan (typically 3-6% of your salary in matching contributions).** While companies are not required to make matching contributions to what employees save for retirement, most companies with employer-sponsored 401(k) plans are offering this benefit. According to the Society for Human Resource Management, 42% match employee contributions dollar for dollar up to a certain amount. 56% of companies require workers to save 6% or more in order to receive the full employer-matching contribution. There is also the value of having an employer-sponsored retirement plan in the first place. If you do not have one as an employee, you will not be able to save as much for retirement in tax-advantaged accounts. The consequence: employees without a work-sponsored retirement plan are far less likely to save for retirement. In fact, according to the National Institute on Retirement Security, 45% of working age households in the U.S. have zero retirement account savings.
- **Stock Purchase Plan (typically 10 to 15% of market value**

per share purchased). In a typical stock purchase plan, the employer offers employees the opportunity, but not the obligation, to purchase publicly traded company stock at a discount from the market value.

- **Disability Insurance (\$2,000 to \$5,000 per year)**. Premiums for insurance that replaces a portion of your income if you cannot work due to a non-work related illness or injury can be paid for by the employer, employee or both. Purchasing this insurance as individual policies would be quite expensive. Group policies are much less expense per covered employee, so even if you are paying some or all of the premiums yourself, you are getting a good deal. That is if you have access at all. According to the Bureau of Labor statistics only 25% of U.S. employees have access to both short and long term disability insurance benefits through their employer.
- **Life Insurance (\$250 to \$500 per year)**. Many large employers cover their employees with term life insurance at one times their annual salary. Supplemental term coverage is often available for a low, additional cost.
- **Employer Contribution to FICA (7.65% of salary)**. What is FICA and why does it get so much money from my paycheck?! FICA stands for Federal Insurance Contribution Act, e.g., Social Security and Medicare, and your employer pays just as much as you do towards both programs. The employer contribution adds

up to total of 7.65% of your salary and bonus. When you are retired and draw Social Security and utilize Medicare for health insurance, know that your employers were partners in getting you there.

- **Unemployment Insurance (0.3 - 1.5% of salary).** Under the Federal Unemployment Tax Act, employers pay your unemployment insurance, not you, as well as most states. If you lose your job through no fault of your own, and you meet your state's requirements, you can file for unemployment benefits for some period of time (which varies by state). Like all types of catastrophic insurance, you hope you will not have to file a claim -- but it is comforting to know that it is there if you need it.

5. THE PUBLIC PENSION EXODUS FROM HEDGE FUNDS THAT IS NOT -- EXPLAINED: In 2014, the California Public Employee Retirement System, announced that it would liquidate its \$4 billion in hedge fund investments. Since then, a number of public pensions have followed suit according to thetrustedinsight.com. While at face value this looks like the intensifying of an industry-wide exodus, public pensions continue to seek the benefits that hedge funds are designed to provide. The trend is, instead, a highly publicized experimentation to reconcile a low return environment, an antiquated fee structure and the need for downside protection. The approach across pension funds differs wildly. "Each fund is unique, and their decision is based on their unique circumstances," said Keith Brainard, research director for the National Association of State Retirement Administrators. "They

are not doing it because someone else is doing it, but because they have made a decision that it needs. It is a trend, but it is also an individual choice.” In 2016 alone, three large pension funds decided to ditch a total of \$11 billion in hedge fund investments. The New Jersey State Investment Council voted in August to cut its hedge fund allocation by half; the Illinois State Board of Investment plans to reduce its hedge fund exposure to 3% from 10% currently; and the New York City Employees’ Retirement System announced in April to eliminate its hedge fund strategy altogether. Yet overall, public pensions are not reducing their exposure to hedge funds. Rather, in the past two years the average hedge fund allocation of U.S. pension funds has increased to 9.2% from 7.2% despite a number of high profile exits. The California State Teachers’ Retirement System, for one, is looking to increase its hedge fund holdings. It plans to replace its 1.5% allocation in absolute return (as of June 30, 2015) with 9% in the newly created “risk mitigating strategy,” which includes global macro and a number of other hedge fund-like instruments, according to CalSTRS’ 2016 investment plan. For hedge funds defectors, low returns are the number one concern. HFRI, a benchmark index measuring hedge fund performance across sectors, shows little in the way of outperforming public markets in recent years. Over the past ten years, The HFRI Fund Weighted Composite Index, an equal-weighted index of hedge funds, returned just 3.4% annually. S&P 500 Index returned 6.8% over the same period. Amid years of floundering returns, investors find it hard to justify hedge funds’ conventional “2 and 20” fee structure, when buying stock funds often cost less than

1% of the amount invested. However, not everyone buys this frequently invoked comparison of market indices. Adopting or ditching hedge funds can have more complex reasons than merely return.

“The purpose of hedge funds is not to beat the S&P 500 necessarily. Often hedge funds are designed to simply not lose money; sometimes they are designed to beat the bond index,” Brainard said. CalSTRS’ Chief Investment Officer Christopher Ailman told Bloomberg TV earlier this month that hedge funds are important in the long run in hedging against volatility in public markets, which the \$179 billion plan invests more than half of its assets in. Sometimes allocation decisions take account of non-return factors. Betty Tse, chief investment officer of Alameda County Employees’ Retirement Association, says pensions with a younger population in membership are typically more risk-tolerant than ones with a more mature membership, as they face more immediate payout pressure. Still, fees remain a dire problem, especially to public pensions, many of which are already underfunded and therefore draw criticism more easily than other types of institutional investors over hiring expensive fund managers.

Massachusetts Pension Reserves Investment Management Board, or PRIM, took a softer path in solving this problem. Instead of eliminating or reducing hedge funds allocation, in 2011 PRIM switched from the industry standard commingled fund arrangements to a managed account structure, which allows for more transparency and control.

“Because the money is in a managed account, should some unforeseen circumstance arise, our internal people could stop the activity with a phone call,” PRIM’s spokesperson Eric Convey said.

This strategy has helped save PRIM 40 to 50% in fees in most new hedge fund commitments, Convey said. The New Jersey State Investment Council, in addition to planning to cut hedge funds by half, also aims at lowering management fees to “1 and 10,” Bloomberg reported. A June report by Cambridge Associates says hedge funds are still an attractive de-risking strategy for public pensions, given the current low interest rate environment. However, the report points out that it only makes sense to invest with hedge funds when returns are high enough to offset fees.

6. ARRESTING YOUTH FOR COMMON MISBEHAVIOR HARMS

PUBLIC SAFETY: Results from Florida’s second annual comprehensive study of alternatives to juvenile arrests entitled “*Stepping Up: Florida’s Top Juvenile Civil Citation Efforts 2016*” was recently released at a well-attended press conference in Tallahassee. Authored by one of Florida’s top juvenile civil citation experts, the study shows increasing the use of civil citations statewide up to 75% would enable law and order entities to invest up to \$62 million in preventing and addressing felonies and serious crimes, as well as significantly improve life outcomes for nearly 7,000 arrested youth. Philanthropists Joseph W. & Terrell S. Clark, along with the Jessie Ball duPont Fund, joined the Southern Poverty Law Center, ACLU and The Children’s Campaign to financially sponsor the study. Adding research support and awareness were the Florida State University Project on Accountable Justice, James Madison Institute and Florida PTA. Issue advocacy has included the Florida Juvenile Justice

Association. “This year’s study amplifies -- in more depth and with more data -- last year’s findings that civil citations increase public safety, improve youth outcomes and save taxpayer money. The Stepping Up 2016 recommends law enforcement arrest only in rare and exceptional circumstances instead of issuing a civil citation. The report actually goes further. It shows that counties which arrest youth rather than issue civil citations create more reoffenders due to higher recidivism rates. The study reports that when comparing nine of the most common youth related offenses, arrests resulted in at least double the recidivism (reoffender) rate for seven of those offenses. For example, for vandalism, the civil citation recidivism rate is 3%, but it is 9% for post-arrest diversion; for marijuana possession, civil citation recidivism is 5%, but it is 10% for post-arrest; and for petit theft, recidivism is 3% and 7% respectively. Stepping Up 2016 also reveals three counties -- Duval, Hillsborough, Orange -- were responsible for 24% of all arrests (totaling nearly 3,000) for common youth misbehavior in FY 2014-2015. The study recognizes the state’s top-performing counties, school districts and law enforcement agencies, which are categorized by division based on eligible youth. The top-performing counties include Baker, Bay, Broward, Dade, Lafayette, Leon, Pinellas, Seminole, Marion, Monroe, Nassau, Union, Wakulla. “These top-performing counties recognized by Stepping Up 2016 are the best in the state at not arresting youth for common youth misbehavior. Without a doubt, arrests close doors to youth for future education and employment. We are calling on all counties, school districts and law enforcement agencies to get on board and

dramatically increase utilization rates. The study lays out a plan of action to increase the use of civil citations:

- **Supervisory review of arrests:** Arrests of children should be documented and subject to supervisory review. This recommendation stops short of making civil citations mandatory. However, it does allow for the collection of needed data for the ongoing evaluation of civil citations statewide.
- **Younger children's misbehavior should be handled differently:** For some offenses with younger children, law enforcement should allow school officials and parents to handle their misbehavior.
- **Increased utilization statewide, but especially in three counties:** Increasing the utilization rates in Duval, Hillsborough and Orange counties represents the biggest opportunity for dramatically increasing the civil citation utilization rate statewide. The full report, a companion piece ranking the performance of each county, its school district and its law enforcement agencies and press conference coverage can be accessed at www.iamforkids.org/civilcitationreport.

7. NEW PRIVATE DEBT COLLECTION PROGRAM TO BEGIN NEXT SPRING; IRS TO CONTRACT WITH FOUR AGENCIES; TAXPAYER RIGHTS PROTECTED: The Internal Revenue Service announced that it plans to begin private collection of certain overdue federal tax debts next spring and has selected four contractors to

implement the new program. The new program, authorized under a federal law enacted by Congress last December, enables these designated contractors to collect, on the government's behalf, outstanding inactive tax receivables. As a condition of receiving a contract, these agencies must respect taxpayer rights including, among other things, abiding by the consumer protection provisions of the Fair Debt Collection Practices Act. The IRS has selected the following contractors to carry out this program:

- CBE Group, 1309 Technology Pkwy, Cedar Falls, IA 50613
- Conserve, 200 CrossKeys Office Park, Fairport, NY 14450
- Performant, 333 N Canyons Pkwy, Livermore, CA 94551
- Pioneer, 325 Daniel Zenker Dr., Horseheads, NY 14845

These private collection agencies will work on accounts where taxpayers owe money, but the IRS is no longer actively working their accounts. Several factors contribute to the IRS assigning these accounts to private collection agencies, including older, overdue tax accounts or lack of resources preventing the IRS from working the cases. The IRS will give each taxpayer and their representative written notice that their account is being transferred to a private collection agency. The agency will then send a second, separate letter to the taxpayer and their representative confirming this transfer. Private collection agencies will be able to identify themselves as contractors of the IRS collecting taxes. Employees of these collection agencies must follow the provisions of the Fair Debt Collection Practices Act and must be courteous and respect taxpayer rights. The

IRS will do everything it can to help taxpayers avoid confusion and understand their rights and tax responsibilities, particularly in light of continual phone scams where callers impersonate IRS agents and request immediate payment. Private collection agencies will not ask for payment on a prepaid debit card. Taxpayers will be informed about electronic payment options for taxpayers on [IRS.gov/Pay Your Tax Bill](https://www.irs.gov/Pay-Your-Tax). Payment by check should be payable to the U.S. Treasury and sent directly to IRS, not the private collection agency. The IRS will continue to keep taxpayers informed about scams and provide tips for protecting themselves. The IRS encourages taxpayers to visit [IRS.gov](https://www.irs.gov) for information including the “Tax Scams and Consumer Alerts” page. IR-2016-125 (September 26, 2016).

8. 46TH ANNUAL POLICE OFFICERS' AND FIREFIGHTERS' PENSION TRUSTEES' SCHOOL: The 46th Annual Police Officers' & Firefighters' Pension Trustees' School will take place November 2 through 4, 2016. You may access information and updates about the Conference, including area maps, a copy of the program when completed and links to register at the Radisson Resort, Celebration, (Orlando) Florida Please continue to check the FRS website for updates regarding the program at www.myflorida.com/frs/mpf. All police officer and firefighter plan participants, board of trustee members, plan sponsors and anyone interested in the administration and operation of the Chapters 175 and 185 pension plans should take advantage of this unique, insightful and informative program.

9. SIGNS TO GET YOU THROUGH THE DAY: If attacked by a mob of clowns, go for the juggler.

10. PARAPROSDOKIAN: Hospitality is the art of making guests feel like they are at home when you wish they were.

11. TODAY IN HISTORY: In 1936, radio used for 1st time for a presidential campaign.

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.

