



CYPEN & CYPEN
NEWSLETTER
for
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Never Forget September 11, 2001

and

Always Remember May 2, 2011

1. FLORIDA RETIREMENT SYSTEM ESTIMATES ACTUARIAL

ASSUMPTIONS: The Florida Retirement System actuarial assumption conference met on October 11th and 13th to consider revisions to demographic and economic assumptions used for the actuarial valuation of Florida's Retirement System (FRS). Prior to making any changes in assumptions, the preliminary results showed

that FRS would continue to have an unfunded actuarial liability (UAL) -- dropping from 86.5% funded in the 2015 final report to a projected 85.9% funded level in the 2016 initial baseline. At the conclusion of the conference, the projected funded status for 2016 further declines to 85.4%. The conference adopted two changes to the assumptions. The first was relatively minor, and results in the use of a new mortality table for active employees. Taking this adjustment into consideration, the projected UAL is expected to increase from \$22.3 billion in 2015's final valuation to \$23.8 billion. The second change relates to the investment return assumption. Asset performance has been uneven over the past five fiscal years. Returns far exceeded the investment rate assumption in Fiscal Years 2012-13 and 2013-14, which was 7.75% at the time. However, the investment return was much lower than expected in Fiscal Years 2011-12, 2014-15 and 2015-16. The tables below show actual investment returns for the past five fiscal years and actual returns for 5-year, 10-year and 15-year timeframes.

Fiscal Year	Investment Return	Investment Return	
2011-12	0.29%	5-year	6.78%
2012-13	13.12%	10-year	5.85%
2013-14	17.40%	15-year	5.93%
2014-15	3.67%		
2015-16	0.61%		

The state's actuary, the State Board of Administration (SBA), and SBA's financial consultant all recommended a reduction in the investment return assumption to 7.00%. While some of the principals advocated for moving to 7.50%, the conference ultimately decided to

lower the investment return by 5 basis points to 7.60%. Taking both of the adopted demographic and economic adjustments into consideration, the projected UAL for 2016 is expected to increase to \$24.9 billion. The table below displays the nominal returns, inflation rates, and real returns used in the four most recent valuations.

- **2013** -- 7.75% Investment Return; 3.00% Inflation; 4.61% Real Return
- **2014** -- 7.65% Investment Return; 2.60% Inflation; 4.92% Real Return
- **2015** -- 7.65% Investment Return; 2.60% Inflation; 4.92% Real Return
- **2016** -- 7.60% Investment Return; 2.60% Inflation; 4.87% Real Return

The 2016 Legislature fully funded the UAL at the recommended contribution rate as provided in the 2015 valuation report. This action and continued full funding of the recommended UAL rate, as committed to by the Legislature, will result in the gradual increase of the funded ratio in future years. The UAL contribution rate is calculated assuming the liability will be funded over a period of 30 years. The contribution rates should remain stable as long as contributions are made as recommended and actual experience mirrors projections. However, there are many factors that affect these calculations. and can cause the contribution rates to increase or decrease over time. For example, investment returns have been and will continue to be a relatively volatile factor included in the calculations, and if actual investment results are lower than assumed, there could be a significant impact on the UAL and future contribution rates. Some of the principals noted that if experts continue to present similar data trends for expected returns, it is likely that further

reductions to the investment rate assumption will occur in the near future. The following table displays summary results from the 2015 Final Valuation and the 2016 Updated Baseline Valuation. The 2016 Updated Baseline Valuation estimate includes the updated mortality assumption and the updated investment return rate adopted by the conference.

	2015 Final	2016 Updated Baseline
Actuarial Liability (AL)	\$165.5 billion	\$170.3 billion
Actuarial Value of Assets (AVA)	<u>\$143.2 billion</u>	<u>\$145.4 billion</u>
Unfunded Actuarial Liability (UAL)	\$22.3 billion	\$24.9 billion
Funded Status (FS)	86.5%	85.4%
Normal Cost Rate (NCR)	4.17%	4.05%
Unfunded Actuarial Liability Rate (UALR)	<u>5.06%</u>	<u>5.77%</u>
NCR + UALR	9.23%	9.82%

2. PUBLIC PENSION FUNDED RATIO RISES TO 71.0% IN THIRD

QUARTER: The estimated funded status of the 100 largest U.S. public pension plans improved by \$48 billion from the end of June through the end of September as measured by the Milliman 100 Public Pension Funding Index. The deficit fell to \$1.338 trillion due to asset returns that outpaced their expected targets for the quarter. As of September 30, the funded ratio increased to 71.0%, up from 69.8% at the end of June. The market value of plan assets increased by an estimated \$86 billion as a result of relatively healthy investment returns of 3.49% for the quarter, outpacing the 1.82% returns expected by these funds (7.5% annualized). The Milliman 100 PPFI

asset value increased from \$3.197 trillion at the end of the second quarter to \$3.282 trillion at the end of the third quarter. The total pension liability increased from \$4.583 trillion at the end of Q2 to an estimated \$4.620 trillion at the end of Q3. The TPL is expected to grow modestly over time as interest on the TPL and the accrual of new benefits outpaces the benefits paid to retirees. Unlike the case with corporate pension plans, the liability for public pension plans is not directly pegged to current economic conditions; the interest rate assumptions used to determine public pension plan liabilities are reviewed on an ad hoc basis and tend to change only on an annual or multiple-year basis. Estimated returns in the third quarter ranged from a low of 1.33% to a high of 4.37%. The plans with the 10 best returns averaged 4.13%, while the plans with the 10 worst returns averaged 2.27%. The best performing market sectors in the third quarter were largely related to equities for small to mid-sized companies, while bond funds of all types generally fared poorly after having done well in the second quarter. Returns on commodities also suffered in the third quarter after having a very strong second quarter.

3. SHORTFALLS GROW FOR MULTI-EMPLOYER PENSION

INSURANCE FUND: The struggles continue for the insurance fund backing millions of multi-employer pension plans, according to Pension Benefit Guaranty Corporation's Annual Report 2016. The Pension Benefit Guaranty Corp., which insures private pensions, said it is \$58.8 billion short of the cash it needs to cover benefits for multi-employer pension funds that are expected to run out of money within

10 years. With roughly \$2 billion in assets, the insurance fund is on pace to run out of money by 2025, if not sooner, the agency said. The growing deficit puts more pressure on Congress to raise the insurance premiums that companies pay into the multi-employer insurance fund or to come up with another solution to keep the fund afloat. In June, the PBGC said premiums need to increase by 360% from the current rate of \$27 per person to keep the program from running out of money. Any decision to raise the premiums paid by employers needs to come from Congress. Tom Reeder, the PBGC director, said the increase needed will become more dramatic if no changes are made. "The longer they wait to act, the quicker they will have to raise premiums." Earlier this year, the Treasury Department rejected a proposal to reduce benefits for retirees in the Central States Pension Fund, the largest troubled pension fund that is backed by the PBGC. Without help, the pension fund that provides benefits to former truckers and their families will run out of money by 2025, the same year as the PBGC's multi-employer fund. The proposal was made under a 2014 law intended to shore up the PBGC by allowing struggling pension funds to cut benefits for retirees, among other changes. But Treasury has yet to approve any of the requests to cut benefits that were submitted under the program. At least four proposals are currently being reviewed. The troubles are plaguing the insurance fund for multi-employer pensions, which allow businesses to join together and share the costs of providing pensions to their workers and retirees. The insurance fund for single-employer plans, where one company pays for the costs of its pension, is more

financially stable. While most of the 10 million people in multi-employer pension plans covered by the PBGC are in plans that are financially sound, up to 1.5 million are in plans that are expected to run out of money over the next 20 years. “Insolvency of PBGC's multi-employer insurance program would devastate not only the retirement benefits of the 1 million to 1.5 million participants and their families in these at-risk plans, but all the participants in multi-employer plans that are currently receiving financial assistance from PBGC as well,”

Secretary of Labor Tom Perez wrote in a letter introducing the report.

To review the entire 144-page report visit:

<http://pbgc.gov/Documents/2016-Annual-Report.pdf>.

4. EBRI QUESTIONS CENSUS BUREAU PLAN PARTICIPATION

REPORTING: The U.S. Census Bureau’s Current Population Survey (CPS) miscounted the amount of Americans participating in employer-sponsored retirement plans, according to the Employee Benefit Research Institute, ([see C & C Newsletter for October 1, 2015, Item 2](#)). Two years ago, the CPS underwent a major redesign of its questions pertaining to income. This shift seems to have led to inaccuracies in reporting, argues EBRI. The organization’s research indicates that the survey’s estimates of major declines in employment-based plan participation contradict other government data.

Furthermore, EBRI notes that groups of workers with the sharpest drops in participation, based on CPS findings, are actually those most likely to engage in retirement plans. These groups include older employees, higher earners, and workers with larger employers.

“Unless modifications are made to the survey, using CPS for estimating the participation in pension and other retirement plans will provide misleading and inaccurate estimates and conclusions,” warns Craig Copeland, senior research associate at EBRI and author of the report. He notes that the Annual Social and Economic Supplement (fielded in March of each year) to the CPS is one of the most cited sources of income data for those likely to be retired, which include people aged 65 and older. The Census Bureau initiated the 2014 redesign following previous research which indicated that the survey misclassified and generally under-reported income -- particularly pension income. EBRI reports that while the changes appear to have improved the accuracy of data on pension income, changes also resulted in historically sharp reductions in the levels of worker participation in employment-based retirement plans. For example, the percentage of full-time, full-year wage and salary workers ages 21-to-64 participating in an employment-based retirement plans dropped by more than 11 percentage points from a 2013 estimate, resulting in more than 9 million fewer individuals participating in an employer-sponsored retirement plan. However, EBRI points out that these findings are contradicted by separate data gathered for the U.S. Bureau of Labor Statistics’ National Compensation Survey, which found that the percentage of private-sector wage and salary workers at establishments with 500 or more employees participating in employment-based retirement plans actually increased from 76% in 2013 to 77% in 2014, and then returned to 76% in 2015. The full report, “Another Year After the Current Population Survey Redesign

and More Questions About the Survey's Retirement Plan Participation Estimates," can be accessed at:

https://www.ebri.org/pdf/notespdf/EBRI_Notes_11-no12-Nov16-CPS.pdf.

5. CalPERS CUTS COSTS AND SAVES PENSION FUND \$922.5

MILLION OVER A FIVE-YEAR SPAN: The California Public Employees' Retirement System (CalPERS) Board of Administration released the Annual Cost Efficiency and Effectiveness Report, detailing several initiatives that resulted in cost savings for the Pension Fund of \$922.5 million over the past five years. "We will continue to look at means to control and reduce costs while focusing on innovative measures that streamline our operations," said Richard Costigan, chair of the Finance and Administration Committee. "This savings is a reflection of CalPERS' efforts to cut costs and leverage the savings that improve our health and retirement programs for our members and employer partners." Between Fiscal Years 2011-16, CalPERS achieved savings in its investment, health care, and information technology programs through the following initiatives:
Investment Office - \$325 million in savings

- Reduced reliance on external consultants;
- Internalized functions previously outsourced at a higher cost; and
- Re-negotiated existing investment contracts with external managers for more favorable cost terms and improved

economics.

Health Care Program - \$565.4 million in savings

- Developed innovative methods to achieve pharmaceutical cost containment;
- Achieved savings through the removal of ineligible dependents from individual employee health plans;
- Reduced administrative fees with the implementation of new flex funded health plans;
- Reduced costs for hip and knee replacement by standardizing pricing among providers;
- Required members to pay the cost difference between brand name and equivalent generic drugs; and
- Consolidated multiple Medicare payers to a single Medicare payer.

Information Technology - \$32.1 million in savings

- Transferred consultant work and knowledge to state staff.

In Fiscal Year 2015-16, CalPERS costs savings and reductions resulted in another \$289.3 million from the previous fiscal year of \$633.2 million to a new grand total of \$922.5 million. "The savings and cost avoidance of nearly \$290 million in a one-year period is an accomplishment that speaks to our operational effectiveness," said Cheryl Eason, CalPERS chief financial officer. "Our priorities are to balance our operational requirements, while demonstrating fiscal

responsibility."

Other key operational improvements included:

- The development of the Funding Risk Mitigation Policy
- A new option for members to receive their health statement online
- Reduced water consumption that recaptured 1.7 million gallons of water.

For more than eight decades, CalPERS has built retirement and health security for state, school, and public agency members who invest their lifework in public service. The pension fund serves more than 1.8 million members in the CalPERS retirement system and administers benefits for nearly 1.4 million members and their families in our health program, making it the largest defined-benefit public pension in the U.S. CalPERS' total fund market value currently stands at approximately \$299 billion.

6. WITH THE NEW YEAR COMES NEW SOCIAL SECURITY

CHANGES: According to the Social Security Administration, monthly Social Security and Supplemental Security Income benefits will see a slight increase in 2017. Some other adjustments that take effect in January of each year are based on the increase in average wages. Based on that increase, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to \$127,200 from \$118,500. Of the estimated 173 million workers who will pay Social Security taxes in 2017, about 12 million will pay more because

of the increase in the taxable maximum. Thresholds for benefits will change slightly next year including the Substantial Gainful Activity (SGA), SSI Federal Payment Standard, and SSI Student Exclusion. To read the entire Social Security Fact Sheet with all of the 2017 Social Security Changes visit:

<https://www.ssa.gov/news/press/factsheets/colafacts2017.pdf>.

7. RELIEF FOR THOUSANDS SUFFERING FROM ALZHEIMER'S

DISEASE: Today, there are nearly 5.4 million Americans living with Alzheimer's disease. While most people associate the disease with old age, there are 200,000 Americans under the age of 65 living with it today. As with all forms of the disease, Early Onset Alzheimer's is a progressive, terminal disease, which cannot be prevented, cured or even slowed. Since the onset can occur in people as early as their thirties and forties, it often strikes during an individual's prime working years, and as the disease progresses it prevents gainful employment. As a result, individuals are coming to grips with a devastating diagnosis all while losing employment and the salary and benefits that come with being employed. These individuals and their caregivers then must figure out how they will pay for their care. According to Social Security Matters blog, thankfully since 2010 Social Security has helped by adding Alzheimer's disease to its Compassionate Allowances Initiative. The initiative identifies debilitating diseases and medical conditions so severe they obviously meet Social Security's disability standards. Compassionate Allowances allow for faster payment of Social Security benefits to individuals with Alzheimer's

disease, mixed-dementia and Primary Progressive Aphasia. The inclusion of Alzheimer's disease in Social Security's Compassionate Allowances has had a profound impact on the Alzheimer's community, helping thousands of families. Social Security benefits are very important to individuals with early-onset who are unable to work and have no other source of income. At the Alzheimer's Association, we hear from family caregivers about the challenges they face paying for care. The financial complications fall to the caregiver as well as finding the day-to-day care solutions. That is just one of the reasons why we celebrated November as National Family Caregiver Month and we took the time to honor the 15 million caregivers for those living with Alzheimer's disease. To learn more about how Social Security disability insurance works, visit Social Security's disability page and visit Social Security's Compassionate Allowances page <https://ssa.gov/compassionateallowances/> to learn more about other medical conditions under the Compassionate Allowances Initiative. The Alzheimer's Association is also here to help, visit www.alz.org or call our 24/7 Call Center at 1-800-272-3900 for additional support.

8. BEST STRATEGIES TO RETIRE ON SOCIAL SECURITY

ALONE: We remember many phrases uttered by Franklin Roosevelt, including, "All we have to fear is fear itself" and "a day that will live in infamy." Alas, most of us have forgotten the FDR pronouncement most relevant to our lives. Upon signing Social Security into law in 1935, Roosevelt said. "None of the sums of money paid out to

individuals in assistance or in insurance will spell anything approaching abundance. But they will furnish that minimum necessity to keep a foothold..." That is still the case. Yet today Social Security provides 35% of retirees with 90% or more of their monthly income. Our over-dependence on Social Security, which pays an average of just \$1,180 per month, is largely the result of changes in employment benefits and society. Private sector pensions, once the cornerstone of retirement funding, have nearly disappeared, replaced by 401(k) and other savings programs that require us to largely self-fund our retirement and aggressively save towards that goal. Meanwhile, we are living longer, having children later in life and often supporting elderly parents -- all in a volatile economy. These factors can play havoc with a couple's retirement savings efforts. If you are facing the prospect of relying on Social Security in retirement, there are steps you can take to make the most of that less-than-optimal situation, even if you are nearing retirement age according to thebalance.com.

- **Max Out Your Benefits.** Make sure that you work at least 35 years, even if that means pushing back your retirement. Social Security benefits are based on your 35 highest-earning working years. Work less than 35 years and the deficit years go into the calculation as goose eggs, which could significantly lower your monthly retirement benefit. While you are working, maximize your income. If you are at the top of the pay scale in your career job, think about taking a second job. Anything you do to boost your yearly income will pay off in the long run on your Social

Security check. Want to check on how you are doing? You can get a detailed estimate on the Social Security Administration's website.

- **Hold Off on Taking Benefits.** You want to make sure you wait until you are at least full retirement age to start claiming benefits. Your full or "normal" retirement age, as defined by the Social Security Administration, is between 65 and 67; depending on what year you were born. Choosing to take early distributions will reduce your monthly benefit amount for life. If you can, postpone tapping into your benefits until you are age 70. This will get you what the Social Security Administration calls "delayed retirement credits." Your benefits increase 8% each year you delay taking Social Security income until age 70. Waiting until you hit 70 translates into about a third more income for life.
- **Move to a Cheaper Place.** Consider moving to a less expensive area to reduce your retirement cost of living. This time-honored tradition helps explain the on-going migration of older Americans from places like New York and Massachusetts to Florida and North Carolina. There are any number of vibrant small cities where you can live a very full life and cover your largest costs -- housing, food, *et cetera* -- on what you and your spouse receive from Uncle Sam. You might even consider moving overseas to any one of the Central and South American countries that welcome American retirees with warmth, easy-

going lifestyles, modern amenities and low costs of living.

Ideally, Social Security should be just one revenue stream in your retirement income. Savings, a part-time job and even some rental income should also be in the mix. But life happens -- sometimes with terrible timing. If things do go sideways, know that by employing these strategies you can still have a great post-career life, courtesy of the benefits you started earning back in high school as a waitress or gas pump jockey.

9. FUN WITH WORDS: When she saw her first strands of grey hair she thought she would dye.

10. PARAPROSDOKIAN: Artificial intelligence is no match for natural stupidity.

11. TODAY IN HISTORY: In 1929, game of Bingo invented by Edwin S. Lowe.

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.

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