



CYPEN & CYPEN
NEWSLETTER
for
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Never Forget September 11, 2001
and
Always Remember May 2, 2011

1. CalPERS TO LOWER DISCOUNT RATE TO SEVEN PERCENT OVER THE NEXT THREE YEARS:

According to International Foundation of Employee Benefit Plans, the California Public Employees' Retirement System Board of Administration voted to lower the discount rate from 7.5% to 7.0% over the next three years. This incremental lowering of the discount rate will give employers more time to prepare for the changes in contribution costs. "This was a very difficult decision to make, but it is an important step to ensure the long-term sustainability of the Fund," said Rob Feckner, president of the CalPERS Board of Administration. "We know this will have an impact on the state, schools, and public agencies that partner with us, and we are committed to making sure the changes are implemented in a phased approach so our employers and affected members have time to plan their budgets responsibly." The discount rate changes approved by the Board for the next three fiscal years are as follows:

FY	2017-2018:	7.375%
FY	2018-2019:	7.25%
FY	2019-2020:	7.00%

In addition, the Board approved separate timelines for implementing the new rate for state, school, and public agencies. The new discount rate for the state would go into effect July 1, 2017. The new discount rate for the school districts and public agencies would take effect July

1, 2018. The difference allows schools and public agencies additional time to plan for rate increases. Lowering the discount rate, also known as the assumed rate of return, means employers that contract with CalPERS to administer their pension plans will see increases in their normal costs and unfunded actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. The three-year reduction of the discount rate will result in average employer rate increases of about 1% to 3% of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2% to 5% increase for most safety plans. Additionally, many CalPERS employers will see a 30% to 40% increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring the fund to a fully funded status over the long-term. Beginning in 2017, the board will start reviewing the fund's asset allocation mix during the next asset liability management process. The process, which includes a review of the discount rate, will conclude in February 2018. The decision was made after an extensive review by the board on the current funding status of the fund, projected investment return rates over the next decade, an overview of CalPERS assets and liabilities, and discussions with stakeholders. The CalPERS Board last lowered the discount rate, from 7.75% to 7.5% in 2012. Over the past several years, the CalPERS board of administration has taken several important steps to reduce risks to the fund and ensure long-term stability:

- 2013: Changing amortization and smoothing policies that spread rate increases or decreases over a five-year period
- 2014: Adopting new demographic assumptions that show retirees are living longer
- 2015: Approving a new funding risk mitigation policy to incrementally lower the discount rate during good economic times

In making its decision, the Board reviewed recommendations from CalPERS staff, external pension and investment consultants, and input from employer and employee stakeholder groups. 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 fund serves more than 1.8 million members in the CalPERS retirement system and administers benefits for 1.4 million members and their families in our health program, making us the largest defined-benefit public pension in the U.S. CalPERS' total fund market value currently stands at approximately \$303 billion.

2. WHY PENSIONS ARE IMPORTANT: Here are some important facts provided by penionrights.org:

- The average monthly Social Security benefit paid to retired workers in 2016 is \$1,350.64, or \$16,207.68 a year.
- The average monthly Social Security benefit paid to widows & widowers is \$1,294.04, or \$15,528.48 per year.

- The average monthly Social Security benefit paid to disabled workers is \$1,166.46, or \$13,997.52 per year.
- The federal minimum wage is \$7.25 per hour. Assuming that there are 2080 work hours in a year (40 hours per week x 52 weeks per year), a worker making the federal minimum-wage would earn \$15,080 in one year.
- Some states and local jurisdictions have their own minimum wage laws, which pay more. For example, the minimum wage in California is \$8.00 per hour, or \$16,640 a year. In the District of Columbia, it is currently \$8.25 per hour, or \$17,160 a year.
- Social Security replaces 41%, slightly more than two-fifths, of the amount that someone retiring at normal retirement age in 2016 (age 66) was earning before retirement.
- In 2015, half of Americans age 65 and over who had income from financial assets received less than \$1,683 a year in income from those assets.
- In 2015, 36% of Americans age 65 and over received no income at all from financial assets. Of the Americans age 65 and over who receive income from financial assets, 74% receive less than \$2,500 a year in income from those assets.
- According to the Social Security Administration's Income of the Population 55 or Older, 2014, the median income from assets for "aged units" is \$361. An "aged unit" is defined as either a married couple living together in which at least one of the two is 65 or older or a non-married person 65 or older.
- In 2015, half of all Americans age 65 and older received less

than \$22,887 in income from all sources.

- The median annual income for men 65 and older was \$31,372; for women 65 and older, it was \$18,250.
- The median yearly income for older households was \$38,515.
- The median income of the four-fifths of people age 65 and older who are fully retired was \$18,657.
- Median income of "aged units" with only Social Security is \$15,871. Median income of "aged units" with Social Security and a private pension is \$36,270. Median income of "aged units" with both Social Security and a federal government pension is \$38,806. Median income of "aged units" with both Social Security and some other type of pension (state or local government, military) is \$37,789.
- This figure includes public and private pensions, but does not include IRAs or Keoghs. In 2015, the median pension income for people age 65 and older was \$13,905.
- This figure includes \$8.574 trillion in private pension assets, \$5.667 trillion in state and local government pension assets, and \$3.783 trillion in federal government pension assets.
- The federal tax expenditure for pensions in 2016 is estimated to be \$140.1 billion. This figure includes the revenue lost to the U.S. Treasury from employer contributions to both public and private pension plans. This is a combined total from defined benefit plans (\$57.4B) and defined contribution plans (\$82.7B). It does not include Individual Retirement Accounts and Keogh Plans, which are estimated to cost an additional \$29.2 billion in

foregone revenue. The total retirement plan tax expenditure is estimated at a total of \$169.3 billion for 2016.

- All taxpayers effectively pay for the tax subsidy to encourage retirement savings through higher taxes or fewer government services. The tax expenditure for deductions for health insurance premiums is \$143.8 billion. The subsidy for mortgage interest deductions is expected to be \$77.0 billion in 2016.
- According to the Office of Management and Budget, the federal tax expenditure for pensions in 2016 is estimated to be \$131.3 billion. This is a combined total from defined benefit plans (\$66.6 B) and 401(k) plans (\$64.7 B). It does not include Individual Retirement Accounts and Keogh Plans, which are estimated to cost an additional \$44.9 billion in foregone revenue. The total estimated retirement plan tax expenditures for 2016 is estimated at \$176.2 billion.

3. MOST RIDICULOUS LAWSUITS OF 2016: Too much ice in an iced coffee? Illegal monkey selfie? Legal action over a typo? Yup, it is that time of year again. Institute for Legal Reform has released the Top Ten Most Ridiculous Lawsuits of 2016 and, as expected, these cases do not disappoint.

- **Business owner fights back against overzealous government prosecutors and wins** -- It took \$25 million dollars and one hundred lawyers for a Minnesota company to beat overzealous federal prosecutors in court. The Feds' suit claimed products were sold without proper government

approval. The jury disagreed.

- **Mom and son sue over sat typo that gave students extra test time** -- Test-taking is nerve-racking... but a lawsuit over extra test time? That is what one mother and her son did after SAT test instructions mistakenly gave students five MORE minutes to complete a section.
- **Hot Air: man sues Nebraska Cornhuskers to end balloon release** -- For 50 years, University of Nebraska football fans celebrate Cornhusker touchdowns by releasing thousands of red balloons. But one fan's lawsuit says this threatens the health and safety of wildlife. We should note that the balloons are environmentally friendly and biodegradable. Perhaps he is not feeling that 'Husker school spirit.
- **SoulCycle rider alleges injury to sue trendy indoor cycling outfit** -- Celebrity SoulCycle instructor Angela Davis got sued for running too rigorous a workout. A California woman claimed the instruction, the equipment and the music caused her to fall off the bicycle while the still-moving pedals banged into her ankle.
- **Lawsuit turns \$40 printer sale on Craigslist into \$30,000 in damages** -- How does a \$40 dollar printer on Craigslist turn into a \$30,000 thousand dollar nightmare? When the buyer sues. The printer was broken, he claimed. And six years after the original sale, the case is ongoing. Can you say: most expensive printer EVER?!
- **MasterCard blasts 'baseless' lawsuit over its "stand up to**

cancer” fundraising promotion -- MasterCard has raised more than \$30 million for cancer research . . . and that was too much for one card member, who sued claiming the company continued fundraising after the original \$4 million dollar goal was met. The legal costs of raising more money for a good cause?? Sadly, not Priceless.

- **Monkey business coming to Ninth Circuit, courtesy of PETA** -- In 2015 A British photographer used his camera for a series of popular “monkey selfies...” Animal rights activists sued on behalf of the monkey, claiming the primate -- NOT the photographer -- owns the copyright! In 2016, a court ruling allowed the lawsuit to continue.
- **Woman walks into a ladder while “engrossed” in her cellphone; jury awards her \$161,000** -- “Walking-while-texting” is now common. But it turned into a payday for a Georgia woman. She walked right into a ladder, causing her phone to hit her forehead! And now . . . she is \$161,000 thousand dollars richer.
- **Court tosses lawsuit over lip balm left in tube** -- Did you ever think there was just a bit more lip balm at the bottom of the tube? Ever consider suing? That is what a California woman did when she claimed Fresh, Incorporated conned consumers into thinking there was more “Sugar Lip Treatment” in the empty tube. Her case was thrown out... along with that empty tube.
- **Starbucks feels the heat from two abusive lawsuits** -- Starbucks, the world’s largest coffee chain, was hit by TWO

class action lawsuits over how much java is in their cups. One says there's a quarter inch too much steamed milk instead of coffee. Another says there is too much ice in . . . you guessed it -- the iced coffee.

4. NOT ALL STATES ARE EQUAL WHEN IT COMES TO TAXES

AND SOCIAL SECURITY: According to onwallstreet.com, clients should consider the entire picture, as it is generally much easier to plan for potentially higher tax than it is to deal with the emotional, physical, mental and of course financial costs of moving in retirement.

Here are thirteen states that tax Social Security benefits:

- Colorado
- Connecticut
- Kansas
- Minnesota
- Missouri
- Montana
- Nebraska
- New Mexico
- North Dakota
- Rhode Island
- Utah
- Vermont
- West Virginia

5. OBAMA ADMINISTRATION MAKES LONG-DESIRED CHANGE

TO POSTAL SERVICE PENSIONS: The U.S. Postal Service could finally have its payments into the federal employee pension account calculated using assumptions from its workforce specifically, rather

than the federal workforce as a whole, which has long been a sticking point at the mailing agency according to govexec.com. USPS leadership has for years argued its payments into the Federal Employees Retirement System and the Civil Service Retirement System have been too pricey due to the difference between the demographics of its employees and the rest of government. Salary growth and workforce characteristics of the Postal Service differ significantly from those of other federal organizations -- postal workers generally remain in a similar pay grade throughout their careers while non-postal feds generally see their salaries increase significantly; and postal workers generally die younger than the rest of the federal workforce. Under a proposed rule recently issued by the Office of Personnel Management, the Postal Service would make payments into the pension funds using a separate calculation based exclusively on its employees. While estimates have differed, postal reform advocates and the agency itself have said it has overpaid into the accounts to the tune of billions of dollars. A 2012 report commissioned by the USPS inspector general estimated USPS' FERS surplus has reached \$11.4 billion due to a growing gap between the salary of the average postal worker and the salaries of other federal employees, among other factors. The Office of Personnel Management, however, said the surplus is closer to \$2.6 billion due to lower long-term interest rates than the agency originally used in its calculations. In its fiscal 2016 budget, the White House said the overpayment amounted to \$1.5 billion. President Obama has consistently called for the postal-specific calculation, as have numerous iterations of proposed postal

reform put forward in the last several sessions of Congress. Those proposals have called for OPM to refund the overpayments back to the Postal Service. OPM said in 2012 it was legally required to make its calculation based on government wide, rather than postal-specific, calculations. OPM did not immediately respond to an inquiry into the change. The agency said in the proposed rule it made the change after reviewing a request from the Postal Service. A USPS spokesman said the exact implications of the rule were unclear, explaining it might not contain everything the agency wanted but would be helpful. USPS plans to meet with OPM next week to go over the details of the proposal. OPM suggested making additional calculations specific to each class of FERS contributor; federal employees currently pay one of three different percentages toward their pensions based on when they were hired, ranging from 0.8% to 4.4% of their paychecks.

6. HOW CAN I FIND BENEFITS-RELATED INFORMATION ON THE IRS WEBSITE? QUESTION:

I know the IRS website has information about employee benefit issues, but I have trouble quickly finding what I want. Which IRS webpages are the most useful for plan sponsors and benefit professionals?

ANSWER: There is quite a bit of useful benefits-related information on the IRS website. Here are the webpages we use most frequently:

- **Forms and Publications.** You can view, download, and order IRS forms and publications (some in eBook format for mobile

devices) on this webpage: <https://www.irs.gov/forms-pubs>.

- **Internal Revenue Bulletins (IRBs).** These weekly bulletins include IRS announcements, notices, revenue procedures, revenue rulings, regulations, and other items of general interest: <https://apps.irs.gov/app/picklist/list/internalRevenueBulletins.html>.
- **Drop Library.** IRS announcements, notices, revenue procedures, and revenue rulings usually appear in the IRS Drop Library before they are published in an IRB: <https://www.irs.gov/pub/irs-drop/>.

Information Letters. Information letters provide general statements of well-defined law without applying them to a specific set of facts. They are issued in response to requests for general information from taxpayers or congressional offices. Although information letters are only advisory and do not have any binding effect on the IRS, they can be helpful in understanding the IRS's position on the issues that they cover: <https://apps.irs.gov/app/picklist/list/informationLetters.html>.

- **Written Determinations.** This webpage provides access to private letter rulings (PLRs), technical advice memoranda (TAMs), and chief counsel advice (CCA). PLRs are taxpayer-specific rulings or determinations that the IRS National Office furnishes in response to taxpayer requests. TAMs are written memoranda that the IRS National Office furnishes in response to an IRS district director or chief appeals officer request. CCA

materials are written advice or instructions that the IRS Office of Chief Counsel prepares and issues to other IRS employees.

These written determinations cannot be used or cited as precedent, but they are helpful in determining the IRS's position, often on very specific facts:

<https://apps.irs.gov/app/picklist/list/writtenDeterminations.html>.

Other helpful IRS webpages include the following:

- **Latest News.** The latest news releases, fact sheets, and other IRS-related news items are available here:
<https://www.irs.gov/uac/latest-news>.
- **News Release and Fact Sheet Archive.** This archive contains news releases and fact sheets issued from 1997 to the present:
<https://apps.irs.gov/app/picklist/list/newsReleases.html>.
- **What's Hot.** Look here for information about items of current interest, such as new programs, recent guidance, or timely reminders: <https://www.irs.gov/uac/whats-hot>.
- **Priority Guidance Plans.** These documents provide information about projects that the IRS and Treasury Department expect to work on during a particular period:
<https://www.irs.gov/uac/priority-guidance-plan>.
- **Frequently Asked Tax Questions and Answers.** You will find FAQs in a broad array of tax categories here, as well as a search feature: <https://www.irs.gov/help-resources/tools-faqs/faqs-for-individuals/frequently-asked-tax-questions-answers>.

- **Affordable Care Act Tax Provisions.** This webpage provides information about health care reform provisions for which the IRS has issued regulations or other guidance:
<https://www.irs.gov/affordable-care-act/affordable-care-act-tax-provisions>.
- **ACA Information Center for Applicable Large Employers (ALEs).** This webpage helps employers determine whether they are ALEs under health care reform and provides links to various IRS resources for ALEs, such as background information, Q&As, forms, and publications: <https://www.irs.gov/affordable-care-act/employers/aca-information-center-for-applicable-large-employers-ales>.
- **Affordable Care Act Information Returns (AIR) Program.** This webpage provides information about electronic filing of returns and transmittals required under health care reform: <https://www.irs.gov/for-tax-pros/software-developers/information-returns/affordable-care-act-information-return-air-program>.
- **Tax Information for Retirement Plans.** This is the IRS's home page for retirement plan information, with links to new developments, recent guidance, newsletters, and other resources for retirement plan administration:
<https://www.irs.gov/retirement-plans>.

Keep in mind that other agency websites also provide useful and important benefits-related information. For example, the DOL's

Employee Benefits Security Administration (EBSA) website is also helpful and can be accessed at <https://www.dol.gov/agencies/ebsa>.

7. BIGGEST ADVISER MOVES IN 2016: According to onwallstreet.com, Adviser moves suffered a significant slowdown this year. Only 13 mega teams, those managing \$1 billion or more in client assets, switched firms in 2016. In comparison, 26 such teams made the leap last year. Market volatility, regulatory overhauls and an uncertain political climate contributed to advisers' hesitation towards making major career changes. Some firms have also begun to focus more on retention rather than recruitment. In June, UBS announced that it would reduce recruiting by 40% as part of new firm-wide efforts to improve productivity and loyalty. Here are where the largest recruits went in 2016:

- Lebenthal loses \$750 million elite advisers -- two advisers who managed \$750 million have left Lebenthal Wealth Advisors to start their own firm, with backing from Dynasty Financial Partners. Others have left Lebenthal for other pastures.
- \$800 million Merrill team jumps to Janney -- a team that managed more than \$800 million has left Merrill Lynch to join Janney Montgomery Scott.
- Stifel grabs \$825 million Credit Suisse advisers -- Stifel recruited four Credit Suisse advisers who managed \$825 million in client assets.
- \$1 billion UBS team jumps to Morgan Stanley -- A UBS team

that oversaw about \$1 billion in client assets left to join Morgan Stanley.

- U.S. Capital Advisors recruits \$1 billion advisers from Amegy Bank -- U.S. Capital Advisors recruited advisers that managed approximately \$1 billion in client assets.
- \$1 billion Morgan Stanley team nabbed by RBC -- a team that managed \$1 billion in client assets left Morgan Stanley to join RBC.
- Raymond James grabs \$1 billion team from Stifel -- a team that oversaw \$1 billion in assets left Stifel to join Raymond James' employee channel.
- \$1 billion UBS adviser moves to Merrill Lynch -- a UBS adviser who managed \$1 billion in client assets joined Merrill Lynch.
- \$1.05 Credit Suisse duo departs Wells Fargo -- Wells Fargo scooped up a team that managed approximately \$1.05 billion in client assets from Credit Suisse.
- Merrill picks up \$1.1 billion team -- Merrill Lynch recruited a group of elite Morgan Stanley advisers to open a new office in Bellevue, Washington.
- \$1.2 billion Morgan Stanley team jumps to Merrill Lynch -- a former Merrill Lynch adviser has rejoined the firm with a new team and roughly \$1.2 billion in combined client assets.
- \$1.3 billion team jumps to Raymond James -- Raymond James recruited a team overseeing \$1.3 billion in client assets from Merrill Lynch.
- Credit Suisse loses \$1.6 billion team -- a team that managed

more than \$1.6 billion in client assets left Credit Suisse to join William Blair.

- Wells Fargo loses \$1.7 billion team to Noyes -- a Wells Fargo team that oversees more than \$1.7 billion left to join Noyes, an independent broker-dealer.
- \$2.2 billion adviser leaves Credit Suisse for J.P. Morgan -- a Credit Suisse advisor who managed \$2.2 billion in client assets left the firm to join J.P. Morgan Securities.
- \$7 billion Wells Fargo PCG team goes indie with Raymond James -- An adviser team overseeing nearly \$7 billion in assets for the Private Client Group at Wells Fargo Advisors has gone independent with Raymond James.

8. FUN WITH WORDS: Acupuncture is a job well done. That is the point of it.

9. PONDERISMS: I used to eat a lot of natural foods until I learned that most people die of natural causes.

10. TODAY IN HISTORY: In 1862, bowling ball invented.

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.