



CYPEN & CYPEN
NEWSLETTER
for
JANUARY 12, 2017

Copyright, 1996-2017, all rights reserved
Stephen H. Cypen, Esq., Founding Editor
Robert D. Klausner, Esq., Senior Editor

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

1. S&P 1500 PENSION FUNDED STATUS RECOVERS TO 2015 LEVELS, REACHING 2016 HIGH IN DECEMBER: The estimated aggregate funding level of pension plans sponsored by S&P 1500 companies as of December 31, 2016 returned to the same level, 82%, as it was as of December 31, 2015. Over the course of 2016,

increases in equity and fixed income markets were offset by decreases in interest rates used to calculate corporate pension plan liabilities, maintaining the funded status at 82%. The estimated aggregate deficit of \$408 billion as of December 31, 2016 is \$4 billion more than the \$404 billion deficit at the end of 2015 according to Mercer. Main findings for 2016 include:

- Throughout most of 2016, rates and funded status remained lower than in 2015. By the end of 2016, funded status improved to the same level, 82%, as at the end of 2015.
- Deficits increased slightly from \$404 billion at 2015 year-end to \$408 billion at 2016 year end.
- Interest rates decreased by 20 basis points in 2016, offsetting the positive impact of equity market gains in 2016.

The S&P 500 total return index gained 12.0% during 2016 and the MSCI EAFE total return index gained 1.5%. Typical discount rates for pension plans as measured by the Mercer Yield Curve decreased by 20 basis points during 2016 to 4.04%. The estimated aggregate value of pension plan assets of the S&P 1500 companies as of December 31, 2015 was \$1.80 trillion USD, compared with estimated aggregate liabilities of \$2.20 trillion USD. Allowing for changes in financial markets through December 31, 2016, changes to the S&P 1500 constituents, and newly released financial disclosures, at the end of December the estimated aggregate assets were \$1.81 trillion USD, compared with the estimated aggregate liabilities of \$2.21 trillion USD.

2. IMPROVED GUIDANCE COULD HELP ACCOUNT OWNERS UNDERSTAND THE RISKS OF INVESTING IN UNCONVENTIONAL ASSETS:

In a December 2016 report United States Government Accountability Office examined issues related to the potential risks and responsibilities associated with investments in unconventional assets. GAO found that federal data collection efforts to date have captured little information on retirement accounts holding unconventional assets -- such as real estate, precious metals, private equity, and virtual currency -- making the prevalence of such accounts unknown. In tax year 2015, IRS began requiring that custodians or trustees of individual retirement accounts -- including banks or other institutions approved to hold account assets -- report selected information on unconventional assets in their clients' accounts to IRS. IRS plans to begin compiling the new IRA asset data in 2017, but has not specified when the new IRA asset data will be available for analysis. Seventeen of the 26 custodians which GAO identified as allowing retirement accounts with unconventional assets and which participated in GAO's data collection effort, reported having nearly half a million of these accounts in their custody at the end of calendar year 2015. IRAs made up the vast majority of accounts and assets reported. An IRA owner's decision to invest in unconventional assets can expand their role and responsibilities substantially. GAO's review of industry documents found that individuals wanting to invest in unconventional assets through their IRA generally agree to be responsible for overseeing the selection, management and monitoring of account investments, and shoulder the consequences of most

decisions affecting their accounts. For example, owners of such accounts assume a fiduciary role, which makes them assume greater responsibility for overseeing the selection, management and monitoring of account investments, and shoulder the consequences of most decisions affecting their accounts. Current IRS guidance provides little information to help IRA owners understand their expanded responsibilities and potential challenges associated with investing in unconventional assets. Targeted IRS guidance for these IRA owners may help them navigate the potential compliance challenges associated with certain types of unconventional assets. For example, GAO found that some IRA owners can experience challenges in the following areas:

- Monitoring for ongoing federal tax liability: IRA owners are not always aware of the need to monitor the gross income from certain unconventional assets in their accounts for ongoing federal tax liability. For example, IRA owners who invest in active businesses or debt-financed properties need to monitor their accounts for ongoing tax liability that must be paid from the IRA. Failure to do so can result in underpayment penalties.
- Obtaining annual fair market valuations for non-publicly traded assets: IRA owners investing in hard-to-value unconventional assets can face challenges meeting their responsibilities to provide updated fair market value information to their custodian to meet IRS's annual reporting requirement. Failure to provide an updated fair market value in a timely manner can result in a

custodian prematurely distributing account assets to the owner at a fair market value that is not current, potentially incorrect, and which could lead to a loss of tax-favored status for their retirement savings.

GAO 17-102, December 2016.

3. 401(K) PIONEER NOT A HAPPY CAMPER: According to the *Christian Science Monitor*, Ted Benna is father of the 401(k). As a benefits consultant in 1980, he was among the first to market a savings plan that today enables many American workers to set aside a pre-tax portion of their paycheck, often matched by their employer, in preparation for retirement. As an unintended consequence, however, Americans have failed to set aside adequate savings. The scheme was never meant to serve as the main means by which workers save for retirement, but that is precisely what it became -- increasing financial risk for workers along the way. In 1979, thirty-eight of private sector workers in the United States had traditional pensions. These defined benefit plans guaranteed a monthly income upon retirement. But that figure has now fallen to just 13%, a drop that coincided with a rise in use of employer-sponsored 401(k) defined contribution plans. Instead of guaranteeing a particular payout, these 401(k) plans can expose retirement savings to steep fees and major swings in the stock market. While some workers may enjoy the added flexibility a 401(k) offers, many have a hard time avoiding investment pitfalls. Although there is nothing inherently wrong with shifting from

pensions to 401(k)s, if people do not save enough in their 401(k)s because their contribution rates are too low, that is a problem. If they invest in options that have really high fees whereas pensions typically have pretty low fees because of all the pooling that was going on, that too is a problem. And when retirement comes, it is possible to withdraw too much or too little from a 401(k), presenting workers with even more opportunities to make mistakes. Experts advise workers to set aside at least eight-times their annual salary to retire, but average Americans in every income bracket are behind their savings goals. That is likely a big reason why only about a quarter of Americans, 26%, expect to attain a traditional concept of retirement -- to stop working.

4. HIGHER INTEREST RATES LOWER COST OF RETIREMENT

INCOME: Interest rates are on the rise, marked by the U.S. Federal Reserve's rate boost in December -- that represents good news for retirement savers looking to generate secure lifetime income once they are no longer drawing a paycheck. When interest rates rise, the cost of retirement income decreases. Today, investors are enjoying retirement income costs lower by as much as 14% compared to a few months ago, which helps investors estimate how much annual retirement income their current savings can generate starting at age 65. At the same time, investors' retirement portfolios have been getting a boost from the market rally, so a 55-year-old investor, for example, may now be on track for about 18% more retirement income than a few months ago.

5. STOP ASKING THESE 10 QUESTIONS ABOUT INVESTING

AND RETIREMENT: According to thebalance.com, here are ten questions not to ask – they are hurting your retirement success:

- **What did the stock market do today?** What the stock market did today should have no relevance to you achieving your retirement goals. Why are you asking this question? If it was up, so what? If it was down, so what? What does that information tell you about your ability to live comfortably in retirement?
- **Are interest rates about to go up?** Who cares what interest rates will do? If you are a hedge fund manager or a mortgage broker, yes, this matters. But when it comes to your long term goals, over the course of your retirement interest rates are going to go up, and they are going to go down. No one knows when. Make a plan that works regardless of the timing of these things.
- **What about the economy in China?** China's economy is going to do whatever China's economy is going to do. If you think you are smart enough to figure out what it is going to do, and then act on that information to place trades and make a profit, than you shouldn't be concerned about retirement at all.
- **Should I buy gold?** If things really do crash, what are you going to do with your gold? Shave off a piece and trade it for bread and eggs? If you are worried about calamity a much better investment than gold would be a self-sustaining property

that has its own water, energy, garden and livestock. But that would be too much work, right? Much easier to talk big and buy gold.

- **Would it be better if I wait until the next election is over before I invest?** No one knows the answer to this question. History, however, says waiting was not usually the best course of action. Election years have been good years for stocks. During election years focus on who to vote for, not on how to invest depending on an unknown outcome.
- **Where can I find the highest yield on my investments?** Some of the largest scams in history (Bernie Madoff for example) were successful precisely because of the high yields they offer. High yields come with risk. Investments should be chosen based on the likelihood they can help you accomplish your goals -- not based on choices with the highest yields.
- **How can I protect my retirement money from any losses?** Volatility, such as the serious downturn in the market experienced in 2008 and 2009, is not the same as a loss. Stop confusing volatility with losses. What you need in retirement is stable cash flow -- the approach most likely to deliver that is often an approach that comes with volatility.
- **What is the earliest I can get my 401(k), Social Security, or pension?** If you have a serious health issue, you should be asking this question. Otherwise, what is the point? Look for ways to delay tapping retirement assets, not ways to get to them as early as possible. The 80 year old you will thank you

some day.

- **Should I buy XYZ stock? (Insert Apple/Google, or whatever stock is the darling of the year.)** Who are you asking? Do you think they know what that stock is going to do? If you want to own some for fun, go ahead. If you are basing your retirement success on the outcome of owning this stock; that is like taking the money to Vegas. Owning a single stock entails far more risk than owning a diversified portfolio of index funds. Why take that kind of risk with money you must live on some day?
- **What was the performance of that mutual fund last year?** Past performance of a mutual fund does not tell you what the fund will do in the future. This is a fact. Over long periods of time, certain asset classes are likely to deliver higher returns than others -- but a single mutual fund may own an asset class, or use an investment style, that was in favor last year, and will be out of favor this year. Choose investments based on low fees and on the goals and objectives you have -- not based on past performance.

6. BOCA RATON COPS TEACH “CANE FU” COURSE TO

SENIORS: Kudos to police officers in Boca Raton, well known Florida retirement hub, who are teaching local senior citizens how to defend themselves with walking sticks, during a nine-week “Cane Fu” course. Officers will be teaching the weekly course, which centers around use of a cane as a defensive short-range standoff weapon and also involves balance and mobility. Skills taught also include jabs, strikes

and blocks, as well as avoidance and responsive tactics. Courses are held at the training facility. This one is better seen than read.

<http://spbc.blog.palmbeachpost.com/2017/01/05/boca-raton-police-offer-free-cane-fu-self-defense-class-for-seniors/>.

According to palmbeachpost.com, the number to call for information or registration is 561.347.3938.

7. 2017 BRINGS NEW CHANGES TO FULL RETIREMENT AGE: As the bells ring in the New Year, they also bring changes for new Social Security retirement beneficiaries. Full retirement age is 66 and two months for people born 01/02/1955 through 01/01/1956. They are eligible to receive permanently reduced retirement benefits when they turn 62 in 2017. Full retirement age is the age at which a person first becomes entitled to full (unreduced) retirement benefits. It had been 65 for many years. However, beginning with people born in 1938 that age has been gradually increasing until it reaches 67 for people born in 1960 and later. As the full retirement age continues to increase, there are greater reductions in benefits if you claim them before you reach full retirement age. For example, if you apply for benefits in 2017 at age 62, your monthly benefit amount will be reduced nearly 26%. Some things you must remember when you're thinking about retirement:

- You may start receiving Social Security benefits as early as age 62 or as late as age 70. The longer you wait, the higher your monthly benefit will be.

- Your monthly benefits are reduced permanently if you start them any time before full retirement age.
- If you die, your retirement date can affect the payment to your surviving widow or widower. If you started receiving retirement benefits before full retirement age, we cannot pay your surviving spouse their full retirement age benefit amount. SSA bases their benefit on the amount of your reduced benefits.
- If you elect to receive benefits before you reach full retirement age, you should understand how continuing to work affects your benefits.

8. NEW MAILING ADDRESS: Please note that Cypen & Cypen has a new mailing address: Cypen & Cypen, 975 Arthur Godfrey Road, Suite 500, Miami Beach, Florida 33140.

9. FPPTA TRUSTEES SCHOOL: The Florida Public Pension Trustees Association's Annual Trustees School Conference will take place on January 29, 2017 through February 1, 2017 at the Rosen Centre Hotel, Orlando. A link on FPPTA's web site, www.fppta.org, will take you to the Rosen Centre Hotel site to make your room reservations. You may access information and updates about the Conference at FPPTA's website. 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 conference.

10. CRAZY STATE LAWS: *Good Housekeeping* reminds us that there are crazy laws in every state. We start with Florida and will go back to the remaining states in alphabetical order. In Florida legal parking fees for animals must be paid. Sounds like *Jumanji* was real once upon a time in Florida, because fees have to be paid for animal parking -- including elephants, camels and horses. This law took effect in the 1920s, when the Ringling Bros. Circus moved its winter show operations to Florida.

11. ZEN PROVEN TEACHINGS TO LIVE BY: Never test the depth of the water with both feet.

12. PONDERISMS: How important does a person have to be before they are considered assassinated instead of just murdered?

13. TODAY IN HISTORY: In 1906, the first time Dow Jones closes above 100 (100.26).

14. 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.

15. 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>.

16. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.