



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

1. PASSIVE INVESTMENT TRAIN OVERTAKES ACTIVE IN CORPORATE DC PLANS: *Pension & Investments* reports that the never-ending fight for lower fees and the fear of fee-related lawsuits have pushed passive investments ahead of active management

among large defined contribution plans in 2015 the first time since *Pensions & Investments* began tracking data from the 100 biggest corporate plans.

- Among companies identifying management styles, *P&I* found passive management accounted for 51.8% of assets in 2015, while 48.2% were actively managed. That is a flip from 2014, when active management accounted for 51.5% and passive, 48.5%. In 2013, the active to passive split was 54.7% and 45.3%. *P&I* has analyzed data since 2013 covering U.S.-based companies, both public and private, but excluding mutual companies. Separate company DC plans in Puerto Rico are excluded. The latest data are based on companies' filings with the Securities and Exchange Commission and Department of Labor, primarily for 2015 plan years. *P&I* has also found that collective investment trusts took a bigger piece of the asset-allocation pie, as DC consultants noted that fees are sparking plan executives' interest in CITs at the expense of mutual funds. The actions identified in the *P&I* data match observations of DC experts, who said these trends have marched past 2015 and will advance in the near future.
- The growth in passively managed assets and CITs occurred as total DC assets slipped by less than 1% to \$1.118 trillion in 2015 from \$1.128 trillion in 2014. "It is not a surprise due to all of the litigation," said consultant Jennifer Flodin, referring to greater allocations to passively managed investments. She was

referring to lawsuits accusing plan sponsors of breaching their fiduciary duties by not using or considering lower-cost investment options. In their investment lineups, “sponsors have been offering a passive sleeve to give more choice,” said Ms. Flodin, the Chicago-based managing director and co-DC practice leader for [Pavilion Advisory Group](#) Inc. Plans have added passively managed investments because “there has been a greater scrutiny on fees and more interest,” said Winfield Evens, a partner at Aon [Hewitt Associates](#), Lincolnshire, Ill. “In our view, there is a role for both. No matter what you are using, pay attention to fees.”

2. KNOW THESE FACTS BEFORE DEDUCTING A CHARITABLE

DONATION: The Internal Revenue Service says that if taxpayers gave money or goods to a charity in 2016, they may be able to claim a deduction on their federal tax return. Taxpayers can use the Interactive Tax Assistant tool, [Can I Deduct my Charitable Contributions?](#), to help determine if their charitable contributions are deductible.

Here are some important facts about charitable donations:

- **Qualified Charities.** Taxpayers must donate to a qualified charity. Gifts to individuals, political organizations or candidates are not deductible. To check the status of a charity, use the IRS

[Select Check](#) tool.

- **Itemize Deductions.** To deduct charitable contributions, taxpayers must file Form 1040 and itemize deductions. File [Schedule A](#), Itemized Deductions, with a federal tax return.
- **Benefit in Return.** If taxpayers get something in return for their donation, they may have to reduce their deduction. Taxpayers can only deduct the amount that exceeds the fair market value of the benefit received. Examples of benefits include merchandise, meals, tickets to events or other goods and services.
- **Type of Donation.** If taxpayers give property instead of cash, their deduction amount is normally limited to the item's fair market value. Fair market value is generally the price they would get if the property sold on the open market. If they donate used clothing and household items, those items generally must be in good condition or better. Special rules apply to cars, boats and other types of property donations.
- **Noncash Charitable Contributions.** File [Form 8283](#), Noncash Charitable Contributions, for all noncash gifts totaling more than \$500 for the year. Complete section-A for noncash property contributions worth \$5,000 or less. Complete section-B for noncash property contributions more than \$5,000 and include a

qualified appraisal to the return. Taxpayers may be able to prepare and e-file their tax return for free using IRS [Free File](#). The type of records they must keep depends on the amount and type of their donation. To learn more about what records to keep, see [Publication 526](#), Charitable Contributions.

- **Donations of \$250 or More.** If taxpayers donated cash or goods of \$250 or more, they must have a written statement from the charity. It must show the amount of the donation and a description of any property given. It must also say whether they received any goods or services in exchange for the gift.

Taxpayers should keep a copy of their tax return. Beginning in 2017, taxpayers using a software product for the first time may need their Adjusted Gross Income (AGI) amount from their prior-year tax return to verify their identity. Taxpayers can learn more about how to verify their identity and electronically sign tax returns at [Validating Your Electronically Filed Tax Return](#). IRS Tax Tip (March 20, 2017).

3. TAX REFUND OFFSETS PAY UNPAID DEBTS: The IRS also says, if you cannot pay your taxes in full, the IRS will work with you. Past due debts like taxes owed, however, can reduce your federal tax refund. The Treasury Offset Program can use all or part of your federal refund to settle certain unpaid federal or state debts, to include unpaid individual shared responsibility payments. Here are five facts to know about tax refund offsets:

- **Bureau of the Fiscal Service.** The Department of Treasury's Bureau of the Fiscal Service, or BFS, runs the Treasury Offset Program.
- **Offsets to Pay Certain Debts.** The BFS may also use part or all of your tax refund to pay certain other debts such as
 - Federal tax debts
 - Federal agency debts like a delinquent student loan
 - State income tax obligations
 - Past-due child and spousal support
 - Certain unemployment compensation debts owed to a state.
- **Notify by Mail.** The BFS will mail you a notice if it offsets any part of your refund to pay your debt. The notice will list the original refund and offset amount. It will also include the agency that received the offset payment. It will also give the agency's contact information.

How to Dispute Offset. If you wish to dispute the offset, you should contact the agency that received the offset payment. Only contact the IRS if your offset payment was applied to a federal tax debt.

Injured Spouse Allocation. You may be entitled to part or the entire

offset if you filed a joint tax return with your spouse. This rule applies if your spouse is solely responsible for the debt. To get your part of the fund, file [Form 8379](#), Injured Spouse Allocation. If you need to prepare a Form 8379, you can prepare and e-file your tax return for free using [IRS Free File](#).

While the law prohibits the IRS from using liens or levies to collect any individual shared responsibility payment, if you owe a shared responsibility payment, the IRS may offset your refund against that liability. IRS Tax Tip (March 21, 2017)

4. NYC REACHES PENSION DEAL WITH THREE UNIFORMED UNIONS -- NOT INCLUDING PBA: According to nydailynews.com, the de Blasio administration has reached a deal with three unions representing uniformed city workers, including members of the FDNY, that boosts disability pensions for some workers. But the deals, announced by City Hall, do not include the Patrolmen's Benevolent Association, the city's largest New York Police Department union. It does cover the Uniformed Firefighters Association, the Correction Officers Benevolent Association and the Uniformed Sanitationmen's Association Local 831 IBT. Under the terms of the deal, workers hired after April 1, 2012, will receive three quarters of their salaries if they are injured in the line of duty. Previously, those Tier 6 employees were only entitled to 50% of their salaries because of budget cuts during the global recession. To pay for it, workers will contribute a set amount toward those disability pensions, ranging from 5% for

firefighters to 3.9% for correction workers. The correction and sanitation workers will pay for their benefits completely through the contributions, while the city will kick in extra to cover the firefighters, who tend to suffer more line-of-duty injuries. Officials estimate it will cost the city \$6.1 million in 2017, and grow to \$12.6 million by 2021. The PBA said they will continue to fight for a bill in Albany to boost pension benefits. Members cannot be made to pay more than their fair share to cover the Mayor's political debts, said the PBA president.

5. EMPLOYEES WILLING TO PAY MORE FOR RETIREMENT

BENEFITS: Twenty-three percent of U.S. employees surveyed by Willis Towers Watson say they will have to work past age 70 to live comfortably in retirement, according to plansponsor.com. Nearly one-third (32%) anticipate retiring later than previously planned, and another 5% do not think they will ever be able to retire. According to the survey, while the average U.S. employee expects to retire at age 65, they admit there is a 50% chance of working to age 70. Nearly eight in 10 workers indicate they will rely on their employer-sponsored retirement plan(s) as the primary vehicle they use to save for retirement. According to the survey, more than six in 10 (62%) respondents would be willing to pay more out of their paychecks for more generous retirement benefits; 63% would be willing to pay more for a certain benefit at the point of retirement. Employers should take this opportunity to personalize their real-time decision-making support and recalibrate default enrollment to close the gaps in employee understanding about savings amount required and costs in retirement.

Many employees who expect to work longer may not be able to due to stress or health issues. Forty percent of employees expecting to retire after age 70 have high or above average stress levels, compared with 30% of those expecting to retire at 65. For those planning to retire after age 70, less than half (47%) say they are in very good health, while nearly two-thirds (63%) of those retiring at age 65 state they are in very good health. The survey also found 40% of employees planning to work past 70 feel they are stuck in their jobs, compared with just one-quarter of those who expect to retire at 65 (28%) or before 65 (27%). Twenty-four percent of employees younger than 30 believe they will retire in their 70s or later, increasing to 28% of those in their 30s and one-third (33%) of those in their 40s. The percentage of U.S. men age 65 or older who are working has grown from 15% in 2003 to 22% last year.

6. COST OF TAX BREAKS FOR STATES AND LOCALITIES MAY

BE EXPOSED: If approved, a new rule would make it easier for groups to challenge the tax exemptions that state and local governments get from the feds. *Governing* says a proposed change in financial rules would shed more light on what the federal government gives up in tax breaks to state and local governments. It would provide ammunition to groups that want to reduce those benefits as a way of eliminating the federal budget deficit. The new rule, proposed by the Federal Accounting Standards Advisory Board, would require feds to include in annual financial reports, the "revenue impact" (but not a precise calculation) of all Washington's lost revenue from tax

breaks. The U.S. Treasury Department already estimates the cost of these expenditures, but they are not included in federal annual financial reports. According to the Treasury Department, the provision that lets filers deduct their state and local income and property taxes from the income they declare to the federal government cost \$84 billion in lost revenue just this last year. An additional \$32 billion accounts for state and local governments' much-beloved tax exemption for municipal bonds, which critics have been trying to repeal for years. But the largest federal deduction, by far, is the one employers get for their contributions to employee health insurance premiums and medical care. That cost the feds \$211 billion in lost revenue this year. For a perspective, the federal budget is a little under \$4 trillion, while the budget deficit is a little over \$500 billion. *Governing* says the change would draw more attention to the particularly big areas of deductions and exemptions, and help critics of those expenditures make a case for getting rid of them. Both Congress and the President have proposed limiting or repealing the tax exemption for muni bonds, but state and local government groups have lobbied hard to keep it, because the benefit allows states and municipalities to offer a lower interest rate on those bonds, meaning it costs less for them to finance infrastructure projects. A study last year found that the tax exempt status of muni bonds has saved governments an estimated \$714 billion in extra interest payments from 2000 to 2014. The idea of limiting or taking away the ability of people to deduct their state and local income and property taxes from the income they declare to the federal government has been less

prevalent but has nevertheless been part of discussions about overhauling the federal tax code. The new accounting proposal, however, is not meant to attack any of the federal government's tax breaks. It simply aims to give those tax policies context. Because tax expenditures are not explicitly reported as appropriations or displayed in other financial statements, shedding light on them would allow users to gain a more complete understanding of the service efforts, costs and factors impacting federal revenues. The proposal is open for comments until September 15, 2017, *Governing* anticipates that it will be criticized for politicizing the financial report just as the Governmental Accounting Standards Board was criticized for a new rule requiring governments to report tax expenditures related to economic development incentives. Read the documents for comment, including exposure drafts, at <http://www.fasab.gov/documents-for-comment/>.

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

8. NEW OFFICE ADDRESS: Please note that Cypen & Cypen has a

new office address: Cypen & Cypen, 975 Arthur Godfrey Road, Suite 500, Miami Beach, Florida 33140. All other contact information remains the same.

9. CRAZY STATE LAWS: *Good Housekeeping* reminds us that there are crazy laws in every state. In Hawaii it's illegal to place a coin in one's ear. Magic shows must be boring in the Rainbow State. This law was enacted to protect the Kingdom of Hawaii coinage, when Hawaii officially joined the United States.

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

11. PONDERISMS: If a deaf person has to go to court, is it still called a hearing?

12. TODAY IN HISTORY: In 2010, President Obama signed the Patient Protection and Affordable Care Act into law.

13. 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.

14. 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>.

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