



CYPEN & CYPEN
NEWSLETTER
for
MARCH 30, 2017

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

1. PUBLIC PENSIONS AND THE ASSETS THAT COULD SUSTAIN THEM: According to Governing, for decades, when cash was scarce, corporate pension plan sponsors have made in-kind contributions -- non-cash assets such as securities and real estate -- to fund their retirement plans. US Steel, for example,

contributed 170,000 acres of timberland to meet its pension liabilities. General Motors used securities from a subsidiary company. Facing bankruptcy, Pan American World Airways transferred the lease for its flagship terminal at New York's Kennedy Airport to its pension funds. These private sector plan sponsors looked to their balance sheets for assets they could monetize by contributing them to their pension funds. Given the fiscal struggles that so many state and local governments face, it might seem that the idea of funding public retirement systems with cash-generating public assets or dedicated funding streams from them would be one that would have caught on long ago. It is an idea that, done properly, is worth considering. Yet state and local policymakers have only recently begun to follow the lead of corporate America. Most recently, New Jersey cited the private sector's practice of transferring assets to pension funds, when it proposed funding the state's beleaguered public pension plans with revenues from the state's lottery. The governor maintained that the strategy would immediately reduce the pension system's current unfunded liability (which is based on the actuarial assumptions for the fund) increase its funded ratio (a measure of its assets' market value), and lower the amount the state would have to pay into the system in coming years. He reckoned this would please taxpayers, bond investors, credit-rating agencies and public employees alike. How this might be done is still to be worked out, but the notion of a pension plan generating income from a lottery asset is not new. In Canada, the Ontario Teachers'

Pension Plan owns the licenses to operate both the British and Irish national lotteries. These assets were not in-kind contributions but rather a direct investment aimed at boosting the pension fund's returns. The difference between a pension fund buying an asset and receiving one in lieu of cash is important. The former is like a marriage for love, while the latter is more akin to an arranged marriage with a dowry of uncompensated risks. An asset such as a state lottery is also much harder to value than stocks or bonds, less readily sold and much more complex to manage. Pension trustees might rightly suggest that policymakers just sell the asset. Another complicating factor is that many pension funds are not authorized to own assets directly or to operate businesses. They can, however, acquire businesses that operate commercial assets. The British and Irish lotteries, for example, are managed by the Camelot Group, an operating company owned by the Ontario teachers' pension. Yet there is a case to be made for in-kind contributions when the risks and rewards can be structured fairly and understood clearly by all parties. For governments, an in-kind contribution can make use of a surplus asset in a way that preserves precious cash, improves balance-sheet resiliency and avoids service cuts or tax increases -- all the while keeping a civic asset in the public sector. For pension plans, an in-kind contribution presents an opportunity to obtain an asset without acquisition costs. Also, pension funds may be better suited to managing certain assets than are government agencies. Gov.

Christie suggested this in his proposal by acknowledging that the state government does not have the ability to tap into the significant value of a special asset like the state lottery. The in-kind contribution being proposed in New Jersey may eventually end up resembling one executed by Pittsburgh in 2010, when the City Council irrevocably dedicated parking revenues to the city's three employee pension funds for 31 years. The city effectively transferred the value of asset ownership to the pension plan without requiring it to assume the risks of ownership or management responsibilities. This past February, Fitch Ratings "rewarded" the city by raising its credit rating, citing Pittsburgh's ongoing plan to improve pension funding. Both Pittsburgh's in-kind contribution and the one being proposed for New Jersey involve income-producing assets. In contrast, Hartford, Connecticut's Municipal Employees Retirement Fund is being asked to accept a 600-acre public park -- which does not currently produce revenue for the city -- as partial payment of the city's annual required contribution. This potentially puts the fund in a difficult position. Its options include selling a local civic asset, commercializing the land or accepting a reduced annual contribution. Clearly, in-kind contributions are not a silver bullet for state and local governments or for public pension funds. It is hard to identify assets suitable for this funding mechanism and even more difficult to price and structure them fairly. But they may be worth the trouble and the serious consideration. One of the most profitable in-kind contributions made to a pension fund

was the conveyance in 2011 of a toll-road network owned by Australia's Queensland state government to the state's pension fund. Queensland Investment Corporation, the fund's savvy manager, restructured the business, added two additional roads to the toll network and sold the asset three years later at a \$3.8 billion profit for the pension fund. Bottom line: Pension fund wins are wins for taxpayers too.

2. Planning Will Help You See Green in Retirement: Social Security has been a cornerstone of financial security for over 80 years. As you might already know, a lifetime of measured discipline can ensure a comfortable retirement. Social Security can help you plan, save and see plenty of green in your golden years. Social Security is part of the retirement plan of almost every American worker. If you are among the 96 percent of workers in the United States covered under Social Security, it is helpful to know what benefits you are entitled to. Social Security bases your benefit payment on how much you earned during your working career. Higher lifetime earnings result in higher benefits. If there were some years you didn't work or had low earnings, your benefit amount may be lower than if you worked steadily. How do you know what your retirement benefits might be so you can plan? Create a safe and secure my Social Security account to view estimates of your future retirement, disability and survivors benefits.

Social Security benefits help secure your today and tomorrow, but many people will need more retirement income. Saving for retirement is the key. You might also have a pension or 401k. Combining as many savings resources will mean more income once you retire. Your personal my Social Security account continues to benefit you once you file for benefits and beyond. Use your account to check the status of your application and, once you are receiving benefits, use your account to manage them. For example, you can start or change your direct deposit, change your address and phone number, get proof of benefits, and much more—online and at your convenience.

3. EX-HARVARD LAWYER GETS 40 YEARS IN PRISON FOR ABDUCTING WOMAN: That A U.S. district judge sentenced disbarred Harvard-educated lawyer Matthew Muller to 40 years in prison for abducting a California woman in a crime so elaborate and bizarre that police initially dismissed it as a hoax, The Associated Press reports. The victim was drugged along with her boyfriend and then dragged from their home in the San Francisco Bay area two years ago. She was forced to endure two days of physical and psychological torture. U.S. District Judge Troy Nunley called the abduction a heinous, atrocious, horrible crime, as he sentenced Muller, 39, reports Don Thompson. He had faced up to life in prison, but prosecutors agreed to recommend 40 years in exchange for his guilty

plea. Prosecutors say Muller used a remote-controlled drone to spy on the couple before he broke into their home with a fake gun, tied them up and forced them to drink a sleep-inducing liquid.

4. EVEN SAN FRANCISCO, FLUSH WITH TECH WEALTH, HAS PENSION PROBLEMS: The Technology industry has transformed San Francisco with a boom other cities can only envy, The Employee Benefits Advisor reports. But it has not eradicated a problem well known to industrial-era towns: the rising cost of pensions. The city, where the unemployment rate is just 3.2% and the typical home sells for more than \$1 million, is facing a budget shortfall that will reach \$848 million in five years. Increases in pension payments and other payroll costs are driving the gap, according to a five-year financial plan, despite a measure voters approved in 2011 that aimed to cut employee-retirement bills. San Francisco officials, who will present an updated fiscal blueprint this week, say they can adjust spending to balance their books, as well as gird for cuts the federal government may implement. Yet the predicament, even in a city known for stratospheric wealth, underscores the financial challenge for states and cities around the country that have to make good on promises to police officers, teachers and other civil servants. For some cities without San Francisco's prodigious tax base, however, reforms alone aren't enough.

State and local governments have about \$2 trillion less than what they need to cover retirement benefits because of investment losses, inadequate contributions and perks granted in boom times. And in California, over the next few years, there will be a rash of local agencies unable to meet their pension obligations. San Francisco's net pension liability — a key measure of how much retirement benefits exceed the assets set aside to cover them — more than doubled to \$5.5 billion in the year ended in June due to lagging investment returns and an update to assumptions, including longer lifespans for retirees. In addition, the city lost a court case and must now pay some cost of living adjustments to retirees it was trying to limit because of the measure that voters approved. Contributions to the San Francisco Employees' Retirement System will increase 36% by 2022, more than three times faster than the city's revenue, according to the five-year plan. The general-fund budget this year is \$4.9 billion. These costs will continue to be a significant budgetary challenge for the foreseeable future, wrote analysts in March at S&P Global Ratings, which grades the city at AA+, the second-highest rank. This is occurring even after voters more than five years ago approved several measures that sought to curb the growth in retirement expenses, such as requiring employee contributions that go higher based on the city's share and limiting what is included in pension calculations to hold down the payouts. The budget shortfalls are also a result of how city officials have decided to spend the money flooding in. With a

burgeoning population, San Francisco turned to restoring and expanding programs. Voters weighed in through ballot measures to mandate spending for groups such as seniors and children. The city has hired 4,519 more workers since fiscal 2011, a 17% increase in its payrolls. It has plowed more money into repairing its facilities and renovating streets. Municipal workers responded to 97% of pothole repair requests in 72 hours last year.

5. CalPERS Joins Other Investors in Continued Support of "Pay Ratio" Disclosure Requirement: The California Public Employees' Retirement System (CalPERS) announced it has signed a letter in support of the U.S. Securities and Exchange Commission's Pay Ratio Rule, which requires public companies to disclose the ratio of CEO pay to that of the median compensation earned by all employees at a company. The Investor Statement on Pay Ratio Disclosure letter was signed by more than 100 organizations representing \$3 trillion in collective assets under management. Other signatories include the New York City Pension Funds, Legal & General Investment Management, Standard Life Investments, and Washington State Investment Board. It was delivered to the SEC's acting chairman, Michael S. Piowar, in response to the chairman's request for comments on Reconsideration of Pay Ratio Rule Implementation. As a long-term investor, CalPERS believes the Pay Ratio Rule provides important information for investors regarding CEO and

employee compensation, It shines a light on how well a company is managing its human capital. The letter also aligns with CalPERS' Investment Beliefs, which include the principle that long-term value creation requires effective management of three forms of capital: financial, physical, and human. Disclosure of this data encourages greater transparency of human capital metrics. It also provides investors the opportunity to analyze risks associated with a company's current compensation structure and human capital management. 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 more than 1.4 million members and their families in the health program, making us the largest defined-benefit public pension in the U.S. CalPERS' total fund market value currently stands at approximately \$312 Billion.

6. State Plans Face Unique Investment Hurdles: During a recent conversation with PLANSPONSOR, George Michael Gerstein, counsel with Stradley Ronon Stevens & Young, made the frank observation that there seems to be a significant and even increasing amount of fiduciary investment risk that exists in governmental plans that is not being addressed.”

Think of state retirement systems like CalPERS or Texas

Teachers. “These governmental plans have really a lot of money to invest and strong liability demands on that money, and so they are enthusiastically pursuing things like alternative investments, greater use of derivatives and other areas and transactions that can, quite simply, go awry if they are not properly approached.

Gerstein believes there is lasting confusion arising from the fact that these big state-run plans are not subject to the Employee Retirement Income Security Act (ERISA)—they are expressly carved out in fact.

But this cannot be taken as these plans having free reign to invest however they please, Gerstein warns. They are all subject to state law—and these state laws vary tremendously. Some are very strict and lay out very specific requirements as to how state money can be allocated. A certain fund might have a restriction that it cannot invest in more than, say, 10% real estate, for example. Many have at least some restrictions on certain vehicles or transactions.

The real challenge for service providers is the fact that some of these restrictions have been passed in old, obscure laws that have not, frankly, been thought about for some time by anyone.

Say, if the plan mentioned above has 8% of its assets in real

estate today and a consultant comes in and pitches an attractive new investment that would push it to 10.5% real estate, or even 10.1% real estate. The investment professional and the sponsor may believe they are making/receiving a prudent recommendation but in fact the consultant is recommending their client break the law.

This line of thinking should serve as a warning to sponsors, but generally they are going to know what they can and cannot do with their money. It more so applies to cases, where the plans have delegated some amount of investment authority to an outside professional. It is always possible that an outside manager will be unaware of some more or less obscure restriction—especially if nobody thinks to warn them, which can happen a lot more easily than you might expect.”

7. 2017's TOUGHEST JOBS TO FILL – According to Benefitnews.com, while the economy and job market have continued growing over the years, there are a number of jobs employers say they are having trouble filling. The challenge hiring managers face for many of the most in-demand professions is finding applicants with the necessary skills, CareerCast notes in its recent report.

To determine the most in-demand professions, CareerCast evaluated Bureau of Labor Statistics data on growth outlook, as

well as industry and profession hiring trends over the last decade; trade statistics; university graduate employment data; and the Careercast.com database of listings to determine the factors driving needs. The following positions top this year's list:

PROFESSION	ANNUAL MEDIA SALARY	GROWTH
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Data scientist		
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	\$128,240	
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		16%
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Financial advisor		
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	\$89,160	
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		30%
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General & operations manager		
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	\$97,730	
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		7%
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Home health aide		
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	\$21,920	
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		38%
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Information security analyst		
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\$90,120

18%

Medical services manager

\$94,500

17%

Physical therapist

\$84,020

34%

Registered nurse

\$67,490

16%

Software engineer

\$100,690

17%

Truck driver

\$40,260

5%

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 Idaho it is illegal to sweep debris into the streets. One man's trash is not another man's treasure in Eagle, Idaho, during the 1970s. If only other cities would enforce this law.

10. ZEN PROVEN TEACHINGS TO LIVE BY: Good judgment comes from bad experience, and a lot of that comes from bad judgment.

11. PONDERISMS: If you drink Pepsi at work in the Coke factory, will they fire you?

12. TODAY IN HISTORY: This day in 1981 U.S. President Ronald Reagan was shot outside a Washington, D.C. hotel by John Hinckley, Jr.

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.