



CYPEN & CYPEN

NEWSLETTER

for

May 11, 2017

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

1. NYC TAKES STEPS TO BAN SALARY HISTORY

INQUIRIES: Employers in the Big Apple will soon be restricted from asking prospective employees to disclose salary history, under a measure recently passed. In a 47-3 vote, New York City council members approved the bill that prohibits public and private sector

employers from using an individual's salary history to determine a new salary offer. Just one underpaid position can set an individual on a course of underpayment lasting their entire professional life.

Employers, meanwhile, are cautioned to remain vigilant in their hiring practices, as such legislation would present challenges for some companies. The law poses a more significant issue for smaller companies without a structured HR department, as it provides a litigation threat to the unwary employer that has less formality to the hiring process. The law will not prevent an employer's consideration of salary history if an applicant willingly, and unprompted, discloses the information. But that may be a trap for the unwary, as potential candidates can allege there was no such willing disclosure. Such inquiries may be less important for larger companies, which likely will be in a better position than smaller ones to access and analyze market compensation metrics for particular positions. Employers should revisit their reference and background check procedures to ensure compliance. Additionally, employers certainly should review and revise their form applications and interview processes to ensure the questions and topics covered do not implicate disclosure of salary history. Philadelphia, earlier this year, became the first city in the nation to make such a move. Other measures are also in the works, as seen in New Jersey, Pittsburg and Washington, D.C. NYC Mayor Bill de Blasio is expected to sign the legislation, according to <https://www.benefitnews.com/news/nyc-takes-steps-to-ban-salary-history-inquiries>.

2. IRS PROVIDES TIPS ON DETERMINING IF IT IS REALLY THE IRS AT YOUR DOOR:

The Internal Revenue Service has created a special new page on IRS.gov to help taxpayers determine if a person visiting their home or place of business claiming to be from the IRS is legitimate or an imposter. With continuing phone scams and in-person scams taking place across the country, the IRS reminds taxpayers that IRS employees do make official, sometimes unannounced, visits to taxpayers as part of their routine casework. Taxpayers should keep in mind the reasons these visits occur and understand how to verify if it is the IRS knocking at their door. Visits typically fall into three categories:

- IRS revenue officers will sometimes make unannounced visits to a taxpayer's home or place of business to discuss taxes owed or tax returns due. Revenue officers are IRS civil enforcement employees whose role involves education, investigation, and when necessary, appropriate enforcement.
- IRS revenue agents will sometimes visit a taxpayer who is being audited. That taxpayer would have first been notified by mail about the audit and set an agreed-upon appointment time with the revenue agent. Also, after mailing an initial appointment letter to a taxpayer, an auditor may call to confirm and discuss items pertaining to the scheduled audit appointment.
- IRS criminal investigators may visit a taxpayer's home or place of business unannounced while conducting an investigation. However, these are federal law enforcement agents, and they

will not demand any sort of payment. Criminal investigators also carry law enforcement credentials, including a badge.

For more information, visit “[How to know it’s really the IRS calling or knocking on your door](#)” on IRS.gov. The IRS reminds people who owe taxes – or think they do – to stay alert to scams that use the IRS as a lure. Tax scams can happen any time of year, not just at tax time. For more information, visit “[Tax Scams and Consumer Alerts](#)” on IRS.gov. Taxpayers have a set of fundamental rights they should be aware of when dealing with the IRS. These are your [Taxpayer Bill of Rights](#). Explore these rights and the agency’s obligations to protect them on IRS.gov.

3. RETIREES DO NOT TOUCH HOME EQUITY: Remarkably, middle-class Americans have at least as much money tied up in their homes as they have in all their retirement plans, bank accounts, and other financial assets combined, reports <http://squaredawayblog.bc.edu/squared-away/retirees-dont-touch-home-equity/>. A hefty share of older U.S. homeowners are even better off: 41 percent between ages 65-74, and 63 percent over 74, have paid off their mortgages and own their homes free and clear. But only one in five retirees would be willing to use their home equity to generate income, finds a new survey by the National Council on Aging ([NCOA](#)). This reluctance seems to be on a collision course with financial reality for working baby boomers, when so many are at risk

that they will not be able to maintain their living standards when they retire. Retirees can get at their home equity to improve their finances a couple of ways. One is to sell, say, the three-bedroom family home on Long Island for a pretty penny and buy a condo on Long Island or a cheaper house in Florida. Yet only a tiny sliver of older Americans actually downsize to reduce their living expenses, according to a new report by the Center for Retirement Research at Boston College, “Is Home Equity an Underutilized Retirement Asset?” Another avenue is available to people over 62 who do not want to move: a reverse mortgage. While these loans against home equity are not for everybody, they are one option if retirees want to pay off the original mortgage or withdraw funds when they are needed. But only about 58,000 homeowners took out federally insured Home Equity Conversation Mortgage (HECMs) in 2015, according to the U.S. Department of Housing and Urban Development. The NCOA’s survey, which was funded by Reverse Mortgage Funding, a lender, uncovered one reason for the lack of interest: retirees are not clear about how reverse mortgages work and how they differ from a standard home equity line of credit. Here is the essential difference: a standard line of credit gives homeowners access to their equity whenever they want it, but it must be paid back, with interest, during the time frame set by the loan. A reverse mortgage also charges interest and fees in return for access to home equity, but it does not have to be repaid until the homeowner moves out or dies. There was considerable confusion and skepticism about reverse mortgages in the NCOA’s surveys and focus groups. When the loan terms were described, but the name “reverse

mortgage” was replaced with the generic “Product B,” homeowners preferred it over a traditional line of credit called “Product A.” They had less interest when the term “reverse mortgage” was used to identify the loan, rather than Product B. Researchers have found other reasons that people find them unappealing, including their relatively high cost and a desire to leave *something*, the house, to their offspring. “It remains to be seen,” concluded the Center’s new report, “whether the growing financial pressures on retirees to tap their [home equity] will overcome these impediments.”

4. CAN YOU GUESS HOW MANY WORKERS HAVE LESS THAN \$1,000 SAVED FOR RETIREMENT? The *Motley Fool* reports that while many people think \$1 million is the retirement savings target they should aim for, the truth is that there is no such thing as a magic retirement number. In fact, if you are willing to live a modest lifestyle, you can quite possibly get by with far less and still enjoy a fulfilling retirement. But while you may not need to hit that \$1 million threshold to retire in comfort, it is pretty safe to say that you will need well more than \$1,000 to cover your living expenses as a senior. But if a large number of Americans do not ramp up their savings efforts, that is all they will have at the end of the day. According to a new report by the Employee Benefit Research Institute (EBRI), almost 25% of current workers have less than \$1,000 set aside for retirement. And while many workers have amassed significantly more than that, nearly 50% have less than \$25,000 in savings for the future. Considering that most of the people surveyed by the EBRI think they will need at least

\$500,000 in total retirement income, it is clear that many Americans are alarmingly far behind. While this glaring lack of savings boils down to lifestyle choices for some people (taking on higher mortgage payments, choosing expensive colleges, and so forth), a large contributing factor is having access to the right savings tools. Among workers with less than \$1,000 set aside for retirement, the majority do not have access to a 401(k). In fact, a good 55 million U.S. workers do not get the option to participate in an employer-sponsored retirement plan, and while that is not a deal-breaker on the road to savings, it is another hurdle to jump. The beauty of 401(k) plans is that they are fairly seamless. All you need to do is decide how much to contribute from each paycheck, and your employer will arrange to have a portion of your earnings filter automatically into its plan. Better yet, if your company sponsors a 401(k), there is a good chance you will snag some free money out of the deal, because 92% of employers that provide access to a retirement savings plan also offer some type of matching incentive. And a little bit of free money can amount to a lot over time. Still, there is no reason to throw in the towel just because you do not have access to a 401(k). There are other savings avenues to explore that can help you meet your retirement goals. In the absence of a 401(k) plan through your employer, your next best retirement savings option is none other than an IRA, the most popular versions of which are the traditional and the Roth. No matter which variety you choose, annual contributions are capped at \$5,500 if you are under 50, or \$6,500 if you are 50 or older. While these limits are far lower than the current limits for 401(k)s (\$18,000 for workers under

50, \$24,000 for those 50 and over), you still stand to save quite a bit if you max them out, invest wisely, and, most importantly, start early on in your career. Even if you do not manage to max out these limits (which most workers cannot do), if you make an effort to begin saving while you still have several decades of growth ahead of you, you can turn a series of fairly small contributions into quite a large sum.

Remember, like 401(k)s, IRAs offer the benefit of tax-deferred (or, in the case of a Roth, tax-free) growth. This means you will not pay taxes on your investment gains along the way, so you can retain and reinvest your earnings year after year.

5. FLORIDA COMMERCIAL REAL ESTATE DEVELOPMENT AND EMPLOYMENT BOOMING:

The National Association of Industrial and Office Parks ranked Florida among the top five states in the nation for commercial real estate industry spending impact and the number of jobs the industry sustains, according to

www.floridatrend.com/article/22007/fridays-daily-pulse. The total impact, combining hard costs for materials, site selection and development and soft costs such as design fees, in Florida totaled \$7.6 billion last year. Direct spending on commercial real estate in Florida was topped only by New York, at \$24.8 billion; Texas, with \$18.5 billion; California, at \$14.3 billion; and Louisiana, with \$9.9 billion, according to NAIOP's latest ["Economic Impacts of Commercial Real Estate."](#) (pdf version).

6. WHY IT IS IMPORTANT TO BE ABLE TO EXPLAIN THE

"SNAPSHOT-IN-TIME" ANOMALY NOW - For the first time in a long time, investors are talking about "growth" versus "value" investing, and that is not a good thing, says *FiduciaryNews.com*. Well, actually, it is a good thing, but the reasons why they are talking about it are not a good thing. On the plus side, it is important for retirement savers to understand the different uses (and abuses) of growth versus value investing (see "[How a Fiduciary Should Explain 'Growth' and 'Value' Investing Styles](#)," *FiduciaryNews.com*, April 11, 2017). Unfortunately, what is prompting this discussion is a short term performance aberration that shows all that is wrong with SEC-mandated performance reporting requirements. What has got everyone all aflutter about growth stocks was the first quarter numbers for the first time in a long time, growth stocks outpaced value stocks in a dramatic fashion. According to Morningstar, in the first quarter of 2017 the average growth beat the average value fund by 4-5%. The Russell 3000 growth index blew past the Russell 3000 value index by 5.64%. Those are big numbers for a year, let alone a quarter. But that is the Snapshot-in-Time talking. A more thorough analysis reveals a greater truth. In the 265 rolling quarters since January 1995, the Russell 3000 Value index beat the Russell 3000 Growth index 133 times (that 50.19%). The Russell 3000 Growth index has only match the success it had in the first quarter 2017 against the Russell 3000 Value index eight times before (the most recent time being the three months ending November 2010). Furthermore, the worst quarter for growth was 4% worse than value and the best quarter for growth was 1% worse than value. So, value had a lower downside and a higher

upside. As you might expect, then, value had a higher median return than growth. Growth will have its day (or quarter) every so often, as the Snapshot-in-Time Anomaly proves. For the long haul, though, as the rolling return analysis suggests, value has stronger numbers.

7. 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.

8. CRAZY STATE LAWS: *Good Housekeeping* reminds us that there are crazy laws in every state. In the State of Louisiana it is illegal to send a surprise pizza. Sending an unprompted pizza is considered harassment, but we sure do wish this would happen more to *us*! Triple check your address if you live in the Pelican State, or else you may be handing over a \$500 fine. The movie, [The Princess Diaries](#) has officially betrayed us.

9. ZEN PROVEN TEACHINGS TO LIVE BY: If you think nobody cares whether you're dead or alive, try missing a couple of car payments.

10. PONDERISMS: Before you criticize someone, walk a mile in his shoes. That way, if he gets angry, he will be a mile away -- and you will have his shoes.

11. OLD CEMETERIES & EPITAPHS: A truly happy person is one who can enjoy the scenery on a detour and one who can enjoy browsing old cemeteries. For example, a cemetery in Hartscombe, England reads: On the 22nd of June, Jonathan Fiddle went out of tune.

12. TODAY IN HISTORY: On this day in 1924, Mercedes-Benz is formed by Gottlieb Daimler and Karl Benz, merging the two companies.

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.