



# CYPEN & CYPEN

## NEWSLETTER

for

### July 27, 2017

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

#### **1. SURPRISE! A LOT OF PEOPLE ARE STILL IN PENSION**

**PLANS:** The newest addition to *Pension Right Center's* blog are statistic pages, which reveal what some may consider a surprising fact: Nearly one-third of private-sector workers participating in retirement plans are in pension plans. Although there has been a shift

to 401(k)-type retirement savings plans, pension plans remain popular because of the security they provide to workers and retirees. Most people with pension plans have guaranteed lifetime benefits that cannot be scaled back unless a plan runs out of money. At a time when the top financial concern of American workers is running out of money in retirement, workers value this sense of certainty. In fact, survey results from the National Institute on Retirement Security show that four out of five Americans have a favorable view of pensions and 71 percent believe that pensions do a better job of helping workers achieve a secure retirement than 401(k) plans. Overall, 17 million private-sector workers are in pension plans. This figure rises to 31 million, when state and local government workers are counted. Stated differently, of the 72 million workers fortunate enough to be in some kind of retirement plan, 43 percent of them are in pension plans providing secure income for life. (See item 15 below.)

## **2. BIGGEST SOCIAL SECURITY RAISE IN YEARS IS**

**PREDICTED:** A modest, tangible piece of good news emerged from Washington, D.C., when the Social Security and Medicare trustees projected that Social Security recipients would receive a 2.2 percent cost-of-living adjustment (COLA) in 2018, reports [www.aarp.org](http://www.aarp.org). It would be the largest increase since 2012, when the COLA rose 3.6 percent. Social Security recipients received no cost-of-living adjustment in 2016 and just 0.3 percent in 2017. If the trustees' projections are correct, on average, beneficiaries would receive an additional \$28 a month. The Medicare Part B standard monthly

premium is expected to remain unchanged. The final COLA and Medicare Part B premiums will be announced this fall. In their 2017 annual report, the trustees echoed last year's projection that the Social Security trust fund would be depleted in 2034, if no changes are made. They extended by five years, until 2028, the time at which the Disability Insurance (DI) program would run out of funds. The trustees noted a recent decline in the number of DI beneficiaries and projected that future increases would be at a rate slower than that of the past 20 years. For Medicare, the trustees moved the date at which the trust fund would be depleted, in the absence of changes, from 2028 to 2029.

### **3. MEDICARE TRUSTEES REPORT SHOWS TRUST FUND**

**SOLVENT THROUGH 2029:** The Medicare Trustees projected that the trust fund financing Medicare's hospital insurance coverage will be depleted in 2029, one year later than projected in last year's report. Lower spending in 2016, lower projected inpatient hospital utilization and slightly better projected hospital insurance deficit in 2017 than in 2016 were the contributing factors to the extended solvency projection. Further, because spending levels in Medicare did not exceed its targets, the Independent Payment Advisory Board (IPAB), set up by the Patient Protection and Affordable Care Act (ACA), was not triggered. For 51 years, Medicare has played a crucial role in providing healthcare for America's senior citizens. Unfortunately, on its current trajectory, Medicare's hospital insurance trust fund will be depleted in just over a decade, while spending on the other elements

of the program continues to grow much faster than our economy. As the Trustees Report says, this means that reform to the program is needed. At HHS, we take seriously our responsibility to protect Medicare for this generation and those to come, and we are pursuing all available avenues to improve Medicare's sustainability in ways that put patients first. In 2016, the Medicare program provided health insurance coverage to 56.8 million beneficiaries. Total Medicare expenditures were \$679 billion, and income was \$710 billion. Total Medicare spending was slightly lower than estimated in last year's Trustees Report. Outlays were slightly lower for Part A and Part D than previously estimated while Part B expenditures were very close to the 2016 estimate. Millions of Americans rely on the healthcare they receive from Medicare. As stewards of this program, CMS will continue to do all we can to reduce out-of-pocket costs for beneficiaries and increase the quality of and access to healthcare for our seniors. The Trustees project that total Medicare costs will grow from approximately 3.6 percent of GDP in 2016 to 5.6 percent of GDP by 2041 and will increase gradually thereafter to about 5.9 percent of GDP by 2091. This projected cost growth exceeds GDP growth through the mid-2030s and is the direct result of a rapidly aging population, caused by the large baby-boom generation entering retirement, and lower-birth-rate generations entering employment. Growth in expenditures per Medicare beneficiary exceeds growth in per capita GDP over this time period. In later years, projected costs expressed as a share of GDP will rise slowly for Medicare, reflecting very gradual population aging caused by increasing longevity and

slower growth in per-beneficiary health care costs. The Trustees project that the 2018 Part B premium will remain at the 2017 levels and that the Social Security cost of living adjustment would be 2.2 percent. Due to low trend increases and Medicare’s “hold harmless” protection, about 70 percent of Medicare beneficiaries have experienced very modest increases in their Part B premium rates since 2013. Finally, the report also noted that the Supplementary Medical Insurance program (Part B and Prescription Drug Coverage) continue to grow faster than GDP in part due to prescription drug costs rising somewhat more quickly than other medical services. A copy of the report is available here: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/index.html>.

#### **4. NO CHANGE FOR SOCIAL SECURITY COMBINED TRUST FUND RESERVES DEPLETION YEAR SAYS BOARD OF TRUSTEES:**

**Disability fund improves by five years:** The Social Security Board of Trustees on July 13, 2017, released its annual report on the long-term financial status of the Social Security Trust Funds. The combined asset reserves of the Old-Age and Survivors Insurance, and Disability Insurance (OASDI) Trust Funds are projected to become depleted in 2034, the same as projected last year, with 77 percent of benefits payable at that time. The DI Trust Fund will become depleted in 2028, extended from last year’s estimate of 2023, with 93 percent of benefits still payable. In the 2017 Annual Report to Congress, the Trustees announced:

The asset reserves of the combined OASDI Trust Funds increased by \$35 billion in 2016 to a total of \$2.85 trillion. The combined trust fund reserves are still growing and will continue to do so through 2021. Beginning in 2022, the total annual cost of the program is projected to exceed income. The year when the combined trust fund reserves are projected to become depleted, if Congress does not act before then, is 2034 – the same as projected last year. At that time, there will be sufficient income coming in to pay 77 percent of scheduled benefits. It is time for the public to engage in the important national conversation about how to keep Social Security strong. People understand the value of their earned Social Security benefits and the importance of keeping the program secure for the future. Other highlights of the Trustees Report include: Total income, including interest, to the combined OASDI Trust Funds amounted to \$957 billion in 2016. (\$836 billion in net contributions, \$33 billion from taxation of benefits, and \$88 billion in interest). Total expenditures from the combined OASDI Trust Funds amounted to \$922 billion in 2016. Social Security paid benefits of \$911 billion in calendar year 2016. There were about 61 million beneficiaries at the end of the calendar year. Non-interest income fell below program costs in 2010 for the first time since 1983. Program costs are projected to exceed non-interest income throughout the remainder of the 75-year period. The projected actuarial deficit over the 75-year long-range period is 2.83 percent of taxable payroll – 0.17 percentage point larger than in last year's report. During 2016, an estimated 171 million people had earnings

covered by Social Security and paid payroll taxes. The cost of \$6.2 billion to administer the Social Security program in 2016 was a very low 0.7 percent of total expenditures. The combined Trust Fund asset reserves earned interest at an effective annual rate of 3.2 percent in 2016. The Board of Trustees usually comprises six members. Four serve by virtue of their positions with the federal government: Steven T. Mnuchin, Secretary of the Treasury and Managing Trustee; Nancy A. Berryhill, Acting Commissioner of Social Security; Thomas E. Price, M.D., Secretary of Health and Human Services; and R. Alexander Acosta, Secretary of Labor. The two public trustee positions are currently vacant.

**5. NEW FLORIDA LEGISLATION THAT MAY BE RELEVANT TO MUNICIPAL PENSION PLANS:** According to our colleague Adam Levinson, no new municipal pension bills were adopted during the 2017 regular session of the Florida Legislature. Nonetheless, there were six bills worthy of discussion. While none of these bills directly relate to municipal pensions, municipal plan administrators, legal counsel and trustees, they want to be aware of them. Below is Adam's memorandum, which contains handy links.

- Public records pre-suit written notice: <http://laws.flrules.org/2017/96>
- Public records exemption for retired firefighters: <http://laws.flrules.org/2017/96>

- Omnibus FRS bill: <http://laws.flrules.org/2017/88>
- Disabled public safety property tax exemption: <http://laws.flrules.org/2017/105>
- Body camera bill: [http://laws.flrules.org/files/Ch\\_2017-015.pdf](http://laws.flrules.org/files/Ch_2017-015.pdf)
- Proposed additional \$25,000 homestead exemption: [http://laws.flrules.org/files/Ch\\_2017-035.pdf](http://laws.flrules.org/files/Ch_2017-035.pdf)

## **6. THE METHUSELAH EFFECT: THE PERNICIOUS IMPACT OF UNREPORTED DEATHS ON OLD AGE MORTALITY**

**ESTIMATES:** The National Bureau of Economic Research has released a new working paper that examines inferences about old-age mortality that arise when researchers use survey data matched to death records. The author shows that even small rates of failure to match respondents can lead to substantial bias in the measurement of mortality rates at older ages. This type of measurement error is consequential for three strands in the demographic literature: (1) the deceleration in mortality rates at old ages, (2) the black-white mortality crossover, and (3) the relatively low rate of old age mortality among Hispanics—often called the “Hispanic paradox.” Using the National Longitudinal Survey of Older Men (NLS-OM) matched to death records in both the U.S. Vital Statistics system and the Social Security Death Index, the authors demonstrate that even small rates of missing mortality matching plausibly lead to an appearance of mortality deceleration when none exists, and can generate a spurious black-white mortality crossover. We confirm these findings using data from the National Health Interview Survey (NHIS) matched to the U.S. Vital

Statistics system, a dataset known as the “gold standard” for estimating age-specific mortality. Moreover, with these data we show that the Hispanic paradox is also plausibly explained by a similar undercount. NBER Working Paper No. 23574 (Issued July, 2017).

**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 1973, New Hampshire outlawed carrying or picking up seaweed off the beach at night. It is rumored that in colonial times, seaweed was used as fertilizer and was a hot commodity.

**9. CYNICAL THINKING:** Today a man knocked on my door and asked for a small donation towards the local swimming pool. I gave him a glass of water.

**10. PONDERISMS:** The statistics on sanity are that one out of every four persons is suffering from some sort of mental illness. Think of your three best friends, if they are okay, then... .

**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, in Shoreditch Churchyard, it reads: We must all die, there is no doubt; your glass is running-mine is out.

**12. TODAY IN HISTORY:** On this day in 1996 a bomb explodes in Atlanta, Georgia, the city hosting this year's Olympic Games leaving two people dead and many more injured.

**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.**