



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

1. ECONOMIC LOSS; THE HIDDEN COST OF PREVAILING PENSION REFORMS: The National Conference on Public Employee Retirement Systems has released a publication entitled *Economic Loss: The Hidden Cost of Prevailing Pension Reforms*. Public pensions are under constant attack by those who would like to

dismantle them and replace them with do-it-yourself defined contribution plans. Opponents, having little or no understanding of how public pensions are funded, promote misleading information about rate-of-return assumptions and huge unfunded liabilities to convince policymakers to dismantle public pensions. Some states are taking actions that are chipping away at public pensions without realizing the economic damage their actions will inflict on their states and our country's economic future. The purpose of this study is to explore the following questions:

- How are public pensions funded?
- How much economic damage will occur in 2025 if the dismantling of public pensions continues?
- What can we do to address funding issues without dismantling public pensions?

We are hopeful that instead of getting caught in a web of misinformation, policymakers will find answers to these questions useful in addressing pension funding issues without dismantling pensions:

- **Pensions play an important role in the economy** – Spending by retirees stimulates local economies, and pension assets are an important source of capital for businesses. America's

mortgage market, its private equity and high-tech industries, and many of its start-ups rely on pension funds as a source of capital. A recent study shows that defined benefit pension plans stimulate \$1.2 trillion in economic output.

- **The economy suffers when we undermine pension --** A 2015 NCPERS analysis of empirical data from the 1980s, the 1990s and the first decade of this century shows that when pension funds are dismantled, income inequality rises. Rising income inequality in turn drags the economy down. Moreover, damage to the economy due to pension cuts is usually greater than the pensions' positive impact. Whereas the full positive impact of pensions on the economy may not be realized because recipients may spend only a part of their checks, the negative impact of pension cuts is realized in the economy dollar for dollar—and then is multiplied several times over as it ripples through the entire economy.
- **It is important to understand public pension funding —** Opponents of public pensions apply rules to public-sector pensions, such as rate-of-return assumptions, that are designed for private-sector pensions. Full funding of pensions might be a meaningless goal in the public-sector context. Whereas private companies could and do go out of business, state governments are here to stay. Does anyone really believe the Commonwealth of Kentucky—or any other state for that matter—will go out of business and find its assets sold to a foreign nation?
- **Public pensions are in better shape than portrayed by their**

opponents — The present study examines how public pensions are funded. We find that 76% of the money coming into public pensions comes from investment earnings. The same figure in 1940 was only 22%. The 2015 Census data show that state pensions are funded at a level of 76.3%. Similarly, NCPERS annual survey data of state and local pension plan shows that average funding level has steadily improved since 2014. We rarely hear this kind of positive information from opponents of public pensions. We also found that states are exploring new ways to ensure adequate fund for pensions. Oklahoma, for example, has set up a pension stabilization fund to be used when any state pension fund's funding level falls below 90%. The city of Pittsburgh has dedicated a portion of revenues from parking assets to its pension fund. States like Wisconsin and Texas are recognizing the value of economics of scale by allowing small districts to join statewide pension plans. Our study also shows that in 41 states, state and local governments share the responsibility of funding pensions.

- **How large will the economic loss be in 2025 if dismantling of pensions continues?** — Using models and parameters developed through our 2015 analysis of empirical data, we estimate that if dismantling of pensions continues, the economy will suffer \$3.3 trillion in damage in 2025. We measure economic growth in terms of median income rather than gross domestic product (GDP) because GDP hides improvements in

the incomes of ordinary people. For example, the GDP may be growing, but all the income growth may be going only to the top 1% of the population. Similarly, we also measure the size of the economy by total personal income.

- **NCPERS' analysis shows that in 2025 the economy is likely to grow at 4.00%, the same rate predicted by the Congressional Budget Office.** This rate will be dragged down to 3.29% if the dismantling of public pensions continues. The total size of the nation's economy, as measured by total personal income, is projected to be \$19 trillion in 2025, and will be reduced by about \$3.3 trillion, if dismantling of public pensions continues.
- **Strategies to adequately fund public pensions without dismantling them —** Instead of staying on a path that will inflict significant damage to the economy, we must explore ways to address funding issues without dismantling public pensions. While the best way to adequately fund public pensions is through progressive tax reforms, the approaches explored in this study are less harmful than dismantling pensions. These approaches are discussed in Section III of the study and include the following:
 - Asset monetization and dedicated revenue sources
 - Well-designed pension obligation bonds
 - Reform of revenue systems

- Closing of wasteful tax loopholes
- Management of risks in economic ups and downs
- Other options, including stabilization funds and economies of scale

We are hopeful the policymakers will find this report useful in understanding pension funding and will keep in mind the economic losses their constituents will suffer if they stay on the path toward dismantling public pensions. We are also hopeful that they will explore ways to address funding issues without dismantling public pensions. Amen.

2. SOCIAL SECURITY ADMINISTRATION RELEASES ANNUAL STATISTICAL SUPPLEMENT FOR YEAR 2016: *The Supplement* is a major resource for data on our nation's social insurance and welfare programs. Most of the statistical tables present information about programs administered by the Social Security Administration—the Old-Age, Survivors, and Disability Insurance program, known collectively as Social Security, and the Supplemental Security Income program. In addition, data are presented on social insurance programs, including workers' compensation, unemployment insurance, temporary disability insurance, Black Lung benefits and veterans' benefits. *The Supplement* also includes program summaries and legislative histories that help users of the data understand these programs. Please note that additional disability tables and statistics

can be found in the *SSI Annual Statistical Report* and the *Annual Statistical Report on the Social Security Disability Insurance Program*. The *Supplement* has been published annually since 1940. Decisions affecting the future of Social Security are facilitated by the availability of relevant data over a long period. The data provide a base for research, policy analysis and proposals for changing the programs. In addition to meeting the Social Security Administration's information needs, the *Supplement* strengthens the agency's ability to respond to requests for program data from congressional committees, government agencies at all levels and the research community. Here are some program trends:

- About 60 million persons received Social Security benefits for December 2015, an increase of 956,277 (1.6 percent) since December 2014. Seventy-two percent were retired workers and their spouses and children, 10 percent were survivors of deceased workers, and 18 percent were disabled workers and their spouses and children.
- Seventy-one percent of the 40.1 million retired workers received reduced benefits because of entitlement prior to full retirement age. Relatively more women (74.1 percent) than men (68.8 percent) received reduced benefits.
- The number of beneficiaries aged 65 or older rose from about 37.2 million in 2010 to about 43.2 million in 2015 (16.0 percent). The number of beneficiaries aged 85 or older increased by

about 8.0 percent during the period, from about 5.2 million in 2010 to about 5.7 million in 2015. In 2015, about 61,000 centenarians were Social Security beneficiaries.

- About 24.0 million women aged 65 or older received benefits for December 2015. About 12.1 million (50.2 percent) were entitled solely to a retired-worker benefit. About 6.6 million (27.4 percent) were dually entitled to a retired-worker benefit and a wife's or widow's benefit, and about 5.4 million (22.4 percent) were receiving wife's or widow's benefits only.
- Almost 3.1 million children under age 18 received benefits, including 1,185,282 children of deceased workers, 1,579,890 children of disabled workers, and 330,546 children of retired workers.
- About 10.2 million persons received benefits based on disability—8,909,430 disabled workers, 1,068,443 disabled adult children, and 259,331 disabled widows and widowers. In addition, 141,760 spouses and 1,633,870 minor and student children of disabled workers received benefits.
- Average monthly benefits for December 2015, including the 0.0 percent cost-of-living adjustment, were \$1,342 for retired workers, \$1,166 for disabled workers, and \$1,286 for nondisabled widows and widowers. Among retired workers, monthly benefits averaged \$1,500 for men and \$1,182 for women. For disabled workers, average monthly benefits were \$1,289 for men and \$1,036 for women.
- Average monthly family benefits for December 2015 were

\$2,347 for a widowed mother or father and children; \$2,015 for a disabled worker, wife, and children; and \$2,778 for a retired worker, wife, and children.

- Total OASDI benefit payments for calendar year 2015 were \$886.3 billion. Payments from OASDI trust fund were \$742.9 billion—an increase of 5.1 percent from the \$706.8 billion paid in 2014.
- Benefit payments from DI trust fund, from which benefits are paid to disabled workers, their spouses, and children, increased by 1.2 percent from \$141.7 billion in 2014 to \$143.4 billion in 2015.
- OASDI benefit awards in calendar year 2015 totaled 5,440,023, including 2,838,988 to retired workers, 561,564 to their spouses and children, and 884,303 to survivors of insured workers. Benefits were awarded to 741,478 disabled workers and to 410,690 of their spouses and children.

3. WHY RAISING SOCIAL SECURITY'S FULL RETIREMENT AGE

IS A BAD IDEA: Proposals to increase Social Security's retirement age are beginning to resurface, according to <http://www.marketwatch.com>. The notion is that if people are living longer, they can work longer. But the retirement age has little to do with how long people work, and a lot to do with how much money they get. Increasing the retirement age is a benefit cut. Social Security's Full Retirement Age (FRA) under current law is in the process of

moving from 65 to 67. To keep lifetime benefits for the average worker roughly constant, benefits claimed earlier than the FRA are actuarially reduced and benefits claimed later are actuarially increased. That is, an FRA of 66 means that people will get 100% of their benefits at 66, 75% if they retire at 62, and 132% if they claim at 70. The comparable numbers for age 67 are 100% at 67, 70% at 62, and 124% at 70. So as the FRA rises from 66 to 67, the worker retiring at 62 sees his monthly benefit cut from 75% to 70% of the full benefit. The worker who increases his retirement age from 66 to 67 sees no cut in the monthly benefit but receives benefits for one less year, reducing his lifetime benefit. So raising the FRA is a cut in benefits either way. Continuously increasing the FRA is particularly hard on the lower paid, because they tend to retire early. The average labor-force participation rate for those with a high-school diploma or less (roughly the bottom third of the education distribution), those with some college but no four-year degree (the middle third), and those with a four-year degree (the top third). Although education is not a perfect proxy for lifetime earnings, the two are highly correlated. If the average retirement age is defined as the age at which half the group is still in the labor force, then the average retirement age is about 62 for the low earners, 64 for the middle earners, and 66 for the top third.

4. RETIREMENT LUMP SUMS BEING DEPLETED

QUICKLY: More than one out of five workers who accepted a lump sum from their employer-sponsored retirement plan have depleted it, a survey found reports insurancenewsnet.com. The study, titled

“Paycheck or Pot of Gold,” was conducted by Harris Poll last summer on behalf of MetLife. Of the individuals who opted for the lump sum, 62 percent had money left over from the withdrawal, 21 percent had depleted their lump sum and 17 percent did not know or could not recall, the study found. Those who reported depleting their lump sum said it took them an average of five and a half years to burn through the money. Those who withdrew money from their defined contribution plans and were not also receiving separate income from a defined benefit pension, reported depleting their lump sum money within four years. If someone runs out of money in five to six years, they either had very little money to start with or did not have an advisor or a had very bad one. Not all recipients who deplete their lump sums mean they have run out of money as some recipients may receive income from other sources. Still, dipping into their lump sum to pay down debt, fund home improvements, buy a car or a second home were among the major spending regrets of people taking the lump sum, the survey found. The study shows that it does not matter whether people rely on a defined benefit or a defined contribution retirement savings plan. When people look at a lump sum they see it as a pot of gold. Those who took lump sum depleted relatively fast compared to life expectancy. Behavioral economists call it the “lottery effect,” which is when people suddenly come into a sum perceived as being large, but do not convert it into the drip-drip-drip of lifetime income or a retirement paycheck, typically in the form of an annuity. Taking a lump sum is tempting but there are significant drawbacks. One of the drawbacks is that lump sums do not come with any income

illustrations, which are more likely with annuity selections. Defined contribution plan participants who selected an annuity were more likely (55 percent vs. 28 percent) to receive illustrations about how much income their plan would provide compared with people who selected a lump sum, the survey found. The survey found that 39 percent of defined contribution plan participants who chose an annuity say they received a projection estimating how many years the money in their plan would last. Only 30 percent of those who chose a lump sum received such a projection. Critics of the defined contribution system say retirement plans need to focus less on asset accumulation illustrations and more on lifetime income illustrations, or how much an employee's savings today will yield in future income. Only 39 percent of defined contribution plan participants recall receiving a written or paper statement illustrating how much income their defined contribution plan would provide in retirement. Only 31 percent of defined benefit plan participants who were given a choice between a lump sum or an annuity received information about the risk of outliving their money, the survey found. Only 12 percent of defined benefit plan participants said they received information about the risk of spending a large sum more quickly than expected, the survey found. Whether employees accept a lump sum or an annuity from their employer-sponsored plan, at least they are talking to someone about it. If employees are talking to someone about their distribution options, it may be that they are not asking enough questions or not asking the right questions.

5. OH, BABY! SOCIAL SECURITY'S TOP 10 BABY

NAMES: Social Security is with you from day one! For most people, Social Security starts at birth when you get your first Social Security card. We are the authority on the most popular baby names from the prior year based on requests for Social Security numbers for newborns. Each year when we reveal the top 10 names for boys and girls, we can see how America's trends and culture have diversified and our choices have broadened:

Rank	Male name	Female name
1	Noah	Emma
2	Liam	Olivia
3	William	Ava
4	Mason	Sophia
5	James	Isabella
6	Benjamin	Mia
7	Jacob	Charlotte
8	Michael	Abigail
9	Elijah	Emily
10	Ethan	Harper

6. POLICE K-9 ESCAPES LIABILITY FOR DAMAGES: In history and literature, the name "Draco" has been associated with some notorious characters. Draco of ancient Greece is perhaps best known for the harsh legal code he composed, which inspired the word "draconian." Draco Lucius Malfoy, of course, is Harry Potter's perpetually maleficent rival in the *Harry Potter* literary series. And to the list of infamous Dracos, add Defendant-Appellant Draco. Draco is a police canine that was involved in the apprehension of Plaintiff Randall Kevin Jones. Unfortunately, Draco inflicted some serious

damage on Jones when Draco refused to release his bite. Jones sued Draco, among others, for negligence. Georgia by its terms, however, does not provide for negligence actions directly against dogs. Therefore, the Eleventh US Circuit Court of Appeals held as much, and reversed the district court's denial of Defendant-Appellants' motion to dismiss Draco. But while Georgia law does not allow for a negligence suit against a dog, it does permit negligence claims against a state officer who is not entitled to official immunity. Federal law likewise authorizes an action against a police officer who employs a dog in an exercise of excessive force. And Jones also sued the officers responsible for Draco's encounter with Jones. In response, Defendant-Appellant Officers invoked official and qualified immunity and moved to dismiss. The district court summarily denied Defendant-Appellant Officers' motion. However, the Appellate court was compelled to reverse that denial, and dismiss the claims. Jones failed to allege facts establishing that the officer acted with malice, so the officers are entitled to official immunity. The binding precedent does not allow for the conclusion that Defendant Officers' employment of Draco in the circumstances of this case violated Jones's clearly established rights, so the officers have qualified immunity. *Jones v. Fransen*, 16-10715 (US 11 Cir 19, 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 the State of Massachusetts it is illegal to tell fortunes without certification. A fortune teller must live in Massachusetts for at least one year in order to apply. [This law](#) helps prohibit psychics from taking all of your moola in exchange for false predictions.

9. ZEN PROVEN TEACHINGS TO LIVE BY: If you ever feel you are worthless remember, that you are full of expensive organs.

10. PONDERISMS: If corn oil is made from corn, and vegetable oil is made from vegetables, then what is baby oil made from?

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 Anna Hopewell's grave in Enosburg Falls, Vermont reads: "Here lies the body of our Anna, done to death by a banana. It wasn't the fruit that laid her low, but the skin of the thing that made her go."

12. TODAY IN HISTORY: On this day in [1990](#) Dow Jones Avg. hits a record high of 2,900.97.

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.