



CYPEN & CYPEN
NEWSLETTER
for
August 10, 2017

Copyright, 1996-2017, all rights reserved
Stephen H. Cypen, Esq., Founding Editor
Robert D. Klausner, Esq., Senior Editor

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

1. DO NOT BLAME CITY EMPLOYEES FOR BUDGET MESS: The Santamaria *Times* reports that in 2008 employees accepted 13 furlough days without pay each year and a 5-percent reduction in pay in response to the recession. Subsequent pay increases have replaced the missing 5 percent and reinstated the furlough days, but

that only got them back to where they were six years ago. As early as January 2011 employees and management of the city realized their retirement system was going to crash if someone did not do something about it. So, all three employee labor groups, through their unions, management and unrepresented employees, accepted pay cuts and a change to their traditional benefit packages. Prior to 2011 the city paid all the retirement contributions, and employees could retire at age 55. That changed in 2011 with the retirement age being increased to 60. More changes in January 2014 saw employees beginning to contribute 8 percent of their gross pay to their own retirements. The retirement age was also raised to 62. Changing a retirement system is not easy, and these steps will help improve future budgets, but it will take about 20 years. The city of Lompoc and other local governments have budget problems caused by an increased demand from CalPERS that they contribute massive sums to keep the system afloat. In Lompoc that means \$5.8 million less this two-year budget cycle and at least \$7.8 million in the next budget cycle, fiscal year 2019-21. These estimates are based on an assumed rate of 7.5-percent return on CalPERS investments for the fund. But, according to a Bloomberg News report in 2016, the rate of return has been sporadic and frequently missed the previous target goal of 8 percent: "In fiscal 2015, CalPERS earned 2.4 percent. The pension lost a quarter of its value in 2009. Two years later, it earned a record 20.7 percent, only to see the gain drop to 1 percent the following year. Since the recession, the fund has sought to better gauge its risks from market volatility." And, in 2016 the fund only earned a meager 0.61

percent in a year when markets were improving. This year they expect a 5.8 percent return, well below the 7-percent assumption. Instead of focusing on a solid rate of return, CalPERS directors instead use their investments to support a social and environmental activist agenda shared by state political leaders. One solution that has been suggested is to seek a pension obligation bond to create a more favorable payment schedule and reduce overall costs. I asked City Manager Patrick Wiemiller about this and he said, “the city is currently investigating the possibility of using a pension bond, however, initial feedback from the bond issuance community is that we (the city) would not necessarily save money.” Apparently, the attractiveness of these investments has waned as the risks to the bond community increased. Wiemiller anticipates the three tax measures he is proposing will resolve shortfalls through the next 20 critical years, but voters must be convinced that the funds are necessary. Concerning the current budget talks, I asked if he thought the City Council would come to agreement on a budget before Aug. 31. “I am optimistic that they will meet that deadline,” was his response. Do not blame city employees for this mess. They have participated in a solution for the last nine years. They do not control the CalPERS investment strategy and with most retirement incomes of less than \$40,000 a year, most of them are not getting rich.

2. AMERICANS’ RETIREMENT BENEFITS HAVE BEEN SLASHED BY A QUARTER: *Bloomberg* reports that Americans are more worried about retirement, and they are getting less help saving for it.

Employers cut their contributions to workers' retirements by a quarter from 2001 to 2015, according to a new report by the consulting firm Willis Towers Watson. The biggest driver: the decline of traditional defined-benefit pensions, replaced by stingier, 401(k)-style, defined-contribution plans. Retirement benefits — including employer contributions to pensions, 401(k)s and retiree health-care benefits — fell from 9.1% of worker pay in 2001 to 6.8% in 2015. Spending on traditional pensions plunged 76%, to less than 1% of worker pay. Medical benefits for retired workers became increasingly scant, falling from 1.2% of worker pay to just 0.2%. The good news is that many companies, while shutting down or freezing pension plans, have sweetened their 401(k) matching contributions. Some large employers, eager to recruit top job candidates in such hot areas as technology, have boosted benefits, as the *Wall Street Journal* reported on Monday. An executive at Microsoft Corp. in charge of benefits told the *Journal* that the company's newly generous employer match had proved so popular that it is blowing my budgets." But higher 401(k) matches are not making up for the loss of other retirement benefits overall, and even the most generous 401(k) plans usually lack a traditional pension's biggest selling point: a guaranteed income for life. With a 401(k), it is up to individual workers to figure out how much they should be saving — and how to make the money last, once they have retired. While retirement plans got less generous, spending on current workers' health insurance soared, Willis Towers Watson said. To keep up with the rising cost of health care in the U.S., employers doubled their spending on health care as a

percentage of employees' pay, from 5.7% in 2001 to 11.5% in 2015. In 2001, retirement made up the majority of the cost of providing benefits to employees, Willis Towers Watson estimated. But its share has fallen steadily. By 2015, health care for current employees was 63% of all benefit spending. Workers are not necessarily getting much for this extra health spending. In fact, other studies have shown that workers' contribution to their own health care, in the form of deductibles and co-pays, is also up. Unfortunately, the rising cost of health care is hitting Americans twice. While they are working, health costs are bleeding away their ability — and their employers' ability — to pitch in for retirement. After retirement, unless current trends change, they face the daunting prospect of higher and higher medical bills. The result is pessimism about retirement. Labor Department statistics show more and more Americans working past 65 and even 70. In a Willis Towers Watson survey of more than 4,700 full-time workers, 76% agreed that my generation is likely to be much worse off in retirement than my parents' generation was. More than a quarter of workers 55 or older said they feel stuck at work and would retire if they could.

3. MEMBERS OF THE ARMED FORCES GET SPECIAL TAX

BENEFITS: The IRS reminds us that members of the military may qualify for tax breaks and benefits. Special rules could lower the tax they owe or give them more time to file and pay taxes. In addition, some types of military pay are tax-free. Here are some tips to find out who qualifies:

- **Combat Pay Exclusion.** If someone serves in a combat zone, or provides direct support, part or even all of their combat pay is tax-free. However, there are limits for commissioned officers. See Earned Income Tax Credit below for important information.
- **Deadline Extensions.** Some members of the military, such as those who serve in a combat zone, can postpone most tax deadlines. Those who qualify can get automatic extensions of time to file and pay their taxes.

Special Deductions:

- **Reservists' Travel.** Reservists whose duties take them more than 100 miles away from home can deduct their unreimbursed travel expenses on [Form 2106](#), even if they do not itemize their deductions.
- **Moving Expenses.** Taxpayers who serve may be able to deduct some of their unreimbursed moving costs on [Form 3903](#). This normally applies if the move is due to a permanent change of station.
- Members of the military can deduct the cost and upkeep of their uniform, but only if rules say they cannot wear it off duty. Also, they must reduce their deduction by any uniform allowance they get for those costs.
- **Earned Income Tax Credit or EITC.** If those serving get nontaxable combat pay, they may choose to include it in their taxable income to increase the amount of EITC. That means

they could owe less tax and get a larger refund. For tax year 2016, the maximum credit for taxpayers is \$6,269. It is best to figure the credit both ways to find out which works best.

- **Signing Joint Returns.** Both spouses normally must sign a joint income tax return. If military service prevents that, one spouse may be able to sign for the other or get a power of attorney.
- **ROTC Allowances.** Some amounts paid to ROTC students in advanced training are not taxable. This applies to allowances for education and subsistence. Active duty ROTC pay is taxable. For instance, pay for summer advanced camp is taxable.
- **Separation and Transition to Civilian Life.** If service members leave the military and look for work, they may be able to deduct some job search expenses, including travel, resume and job placement fees. Moving expenses may also qualify for a tax deduction.
- **Tax Help.** Most military bases offer free tax preparation and filing assistance during the tax filing season. Some also offer free tax help after the April deadline. Check with the installation's tax office (if available) or legal office for more information.

For more, refer to [IRS.gov/Military](https://www.irs.gov/Military) or [Publication 3](#), Armed Forces' Tax Guide, on [IRS.gov](https://www.irs.gov).

4. THE \$200,000 HEALTH SAVINGS

ACCOUNT: <https://www.forbes.com> says, check out the 10 super savers with health savings account balances that top \$200,000 at HealthEquity. What is their secret? You have to contribute in the good times! Think of the accounts like self-insurance. The reality is that most health savings account owners use HSAs more as specialized checking accounts rather than long-term investment accounts, according to a new issue brief by the Employee Benefit Research Institute presented at the Institute's summer policy forum on how to make HSAs work better. Who are the HealthEquity super savers? The top 10 \$200,000-plus savers are not coastal, they live across the U.S.—in places like Shreveport, La. and Export, Pa. and they contribute the maximum allowed, (just 4% of HealthEquity's 3 million account holders contribute the max.) On average, they are 48 years old, have a \$74,000 median household income, and a \$9,000 average HSA balance. This year, you can put up to \$6,750 for a family or \$3,400 for a single into an HSA. That contribution is made pretax, meaning it reduces your taxable income. Withdrawals from an HSA are also tax free, provided the money is used for health expenses. That is a triple tax benefit—better than a workplace 401(k) or Individual Retirement Account. Over time, account owners appear to see the value in investing. The longer a person has had an account, the more likely he is to have figured out how to use it. In 2016, 11 percent of accounts opened in 2005 had investments other than cash, compared to only 1 percent among those opened in 2016. A panelist said she has had an HSA for 10 years and uses it as an investment

vehicle, thanks in part to the fact that she has an accountant husband. It is a mathematical conversation, and most families do not have a math person. Nobody gets it the first year; these are 5-year endeavors. One panelist even admitted that like the vast majority of HSA owners she has not started investing her HSA dollars.

5. MANY EMPLOYEES WOULD CHOOSE STUDENT LOAN

ASSISTANCE OVER 401(k): It is feasible, budget-wise, for participants to participate both in a student loan repayment assistance program and a defined contribution (DC) plan, reports www.plansponsor.com. As the stress of looming student debt grows, more employees are looking to work for companies that offer to pay down their student loans, according to a survey by student loan management assistance provider IonTuition. The survey found 80% of respondents would like to work for a company that offers student loan repayment benefits compared to 70% who said so in a 2015 survey. More than half of those with student debt would prefer monthly contributions towards their loan debt rather than health care benefits, and nearly 48% would choose student loan assistance over a 401(k). Of the nearly 50% of respondents who reported having a 401(k), nearly one-quarter said they would prefer student loan assistance over their 401(k) plan. CEO of YouDecide, Peter Marcia, foresees an increase in student loan programs being ever-more present and offered by employers as more and more young talent is being hired. Repayment programs are going to be utilized as a powerful incentive for the recruitment and retention of young employees within

companies, especially as graduation has just recently occurred and many Millennials are looking for financial assistance to pay off student debt. Asked his opinion if employees should focus on paying down debt first, before saving in a retirement plan, Balaji "Raj" Rajan, CEO of IonTuition, says, debt is expensive and hurts the ability to save. The question is that of balance, the type of career and earning prospects and lifestyle. For those who have a high earning prospect as they grow older, paying down debt is best. For those who believe they are going to be on a fixed, stable income as they grow older, balance is needed. Retirement is important, but most people do not think about retirement savings until they are closer to 40. Further, a large percentage of our population today carries student loan debt well into their forties.

6. 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.

7. CRAZY STATE LAWS: *Good Housekeeping* reminds us that there are crazy laws in every state. In New Mexico... "idiots" are banned from voting. Idiots include, "insane persons convicted of a felonious or infamous crime." To our knowledge, this crazy law is not enforced elsewhere.

8. CYNICAL THINKING: I think it is pretty cool how Chinese people

made a language entirely out of tattoos.

9. PONDERISMS: If you must choose between two evils, pick the one you have never tried before.

10. FUNNY TOMBSTONE SAYINGS: Some tombstones are clever and could make you die from laughter. For example, one tombstone reads: "OK, joke is over. Let me out now!"

11. TODAY IN HISTORY: On this day in 1993 Ruth Bader Ginsburg was sworn in as the second female Supreme Court justice.

12. 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.

13. 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>.

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