



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

1. REVISITING THE THREE Rs OF TEACHER RETIREMENT SYSTEMS, RECRUITMENT, RETENTION AND RETIREMENT: The National Institute On Retirement Security *Issue Brief* reports that as early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A

1917 report on public education noted that “a school-teacher’s work is personal, direct, and positive. It works for the good or the ill of each pupil.” Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was made available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary. Today, the vast majority of public school teachers in the United States participate in a traditional DB pension plan. This report analyzes the effectiveness of pensions on teacher retention and overall teacher productivity, and draws policy conclusions about the ideal design of teacher retirement systems. It finds that:

- Teacher effectiveness increases with experience. Education policy literature finds that teacher productivity increases sharply within the first few years of teaching. Thus, the more retention that we see among midcareer teachers, the more that the average teacher productivity within a school will increase.
- The cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.

Additionally, public school teachers turn over less than private school teachers, largely due to their compensation, including pension benefits.

- Defined benefit pension plans help to recruit high quality teachers, and to retain highly productive teachers longer, as compared with defined contribution (DC) accounts.
- In 2009, DB pensions helped to retain an additional 30,000 teachers nationwide. Because longer tenured teachers are more effective teachers, the increased retention that DB pensions bring increases the overall quality of public education.
- Because the cost of teacher turnover is substantial, the retention effects of DB pension plans also save school districts money. In 2009, DB pensions saved school districts between \$130.7 million and \$284.4 million nationally in teacher turnover costs.

DB pensions remain a cost-effective way to increase retention of highly effective teachers in our public schools. Because DB pensions play an important role in the retention of highly productive teachers, pensions have the dual benefit of both increasing the overall quality of our public education system while also reducing the costs to taxpayers. These findings are particularly important considerations for policymakers, given the economic challenges facing states and localities as they attempt to keep taxpayer costs low while improving education for American children.

2. CORPORATE PENSION FUNDING RISES IN

SEPTEMBER: *Pension & Investments* reports that the funded status for U.S. corporate pension plans rose in September. The estimated aggregate funding ratio of defined benefit plans sponsored by S&P 1500 companies was 83% as of Sept. 30, up 1 percentage point from August on the back of rising discount rates and positive equity market returns. Discount rates rose 7 basis points in September to 3.71%. The S&P 500 and MSCI EAFE indexes returned 1.93% and 2.23%, respectively. The estimated aggregate value of pension fund assets of S&P 1500 companies totaled \$1.91 trillion as of Sept. 30, down from \$1.92 trillion as of Aug. 31, while estimated aggregate liabilities totaled \$2.3 trillion, down from \$2.35 trillion at the end of August. Interest rates finally moved in a positive direction while equities rose. With both these forces working together, pension funded status is now the highest it has been (in about two years). Now, the ball is in plan sponsors' court to make sure they preserve these gains. Plans using a dynamic derisking strategy should be frequently monitoring funded status to see if triggers are hit, and those considering risk transfer transactions may find that the time is right. The aggregate funding ratio for S&P 500 companies with corporate pension plans rose 1.3 percentage point in September to 84.7%. Asset values increased 0.5% over the month, while liabilities decrease 0.9%. Year-to-date through Sept. 30, the aggregate funded status is up 2.8 percentage points. In the third quarter, the funded status rose 1.4 percentage points.

3. RETIREMENT PLANS AT RISK FOR IDENTIFY

THEFT: Benefitslink.com advises that while many cyber threats have special names, e.g. ransomware, malware, cryptolocker, advanced persistent threats or GRIZZLY STEPPE (a malicious cyber attack that occurred late in 2016), your retirement plan's data may be most at risk from common things employees do every day that put themselves at risk for identity theft. It is those common things, discarding paperwork with personal information, postings on various websites and other information that can be available in the public domain that identity thieves may use to gain access to an individual employee's retirement plan account. Retirement plan accounts have been stolen by identity theft in several incidents. A retirement plan is at risk because the correct participant may still make a claim for his benefit and the plan's terms would provide for such benefit, even if the retirement plan or its record keeper fell for the false claims of an identity thief and paid the benefit to the wrong party. In order to protect the personal data and the retirement plan accounts of your employees, in addition to IT security and strong contractual protections with vendors, employers may want to remind employees to guard their personal documents, passwords and keep personal information confidential. This may include a variety of steps, such as:

- Shredding documents before disposal;
- Regularly checking their retirement plan account to verify that no unauthorized transaction has occurred; and

- Reading all correspondence related to their retirement plan account. In one situation, a soon to be ex-spouse was caught obtaining the other spouse's retirement account assets and will get to experience life in a jumpsuit for five years, barring early release for good behavior. Not all identity thieves are caught and some have been successful in obtaining retirement plan accounts to which they were not entitled.

Employers and plan sponsors should carefully review their vendor agreements and your plan's record keeper's procedures on identity verification to determine if there is adequate protection for the employees' retirement plan accounts against identity thieves and for the plan sponsor to protect the plan's assets. If a retirement plan vendor erroneously pays an account to an identity thief, the participant would still have the right to make a claim for his or her retirement account from the plan. So while retirement plan (and health plan) data protections are very important, it is also important to ensure that the retirement plan benefits are also protected against the work of identity thieves and this requires protective procedures in the human resources or benefits department and all the way through and including the retirement plan vendors. Employers and plan sponsors should review their internal security procedures such as verifying the identity of employees who call in with questions, security policies, breach or suspected incident emergency response protocol and procedures, and cybersecurity insurance, including reviewing the policy's exclusions. While insurance may be available, the value of

such insurance may vary greatly and exclusions may limit its usefulness. States have continued to add breach notification laws, and some Circuit courts have made it easier for a person whose identity is stolen to bring suit, increasing the risks and costs associated with litigation alleging failure to protect identifying information.

4. STATES ARE CUTTING THEIR GOVERNMENT

WORKFORCE: On the whole, the size of America's state government workforce has remained flat the last four years. But a closer look at new data shows some states -- and some professional fields -- experienced significant cutbacks. Nationwide, state governments employed just over 2.4 million workers as of March 2016, according to data released by the U.S. Census Bureau. That figure, which excludes education, started to drop with the onset of the Great Recession, and currently mirrors employment levels from the early 1990s. One of the shifts occurring is a gradual shrinking of the workforce in several areas of state government. Last year, social insurance administration and "other government administration" incurred the two largest cuts (-2.5 percent and -2.9 percent, respectively) of any employee classification in the Census survey. Looking back further, most areas of state government have experienced much deeper reductions since total employment peaked in 2009. Social insurance administration, which includes agencies providing unemployment assistance and job services, is down 12.5 percent over the seven-year period. Highways and corrections

similarly incurred steep job losses that have yet to rebound. The one segment of the workforce that appears to be headed in the opposite direction is higher education. Nationally, employment for state colleges and universities has steadily increased for decades, and it rose again last year. While overall state employment has changed little over the 12-month period ending in March 2016, a few individual states registered substantial declines. Several of these states, predictably, experienced budget shortfalls. The following states registered the largest year-over-year declines in public employment, excluding education:

- **Alaska:** The biggest cut to the workforce -- 4.8 percent -- of any state occurred here. That is on top of reductions from the prior year, all primarily resulting from plummeting revenues driven by a drop in oil prices. Vacancies accounted for many of the eliminated positions, and the state has consolidated several divisions. Despite these cuts, however, the state still employs a relatively large workforce given its population.
- **Hawaii:** The Aloha State shed about 3 percent of its workforce between 2015 and 2016. Its public hospitals were among the most affected, with employment declining nearly 7 percent for the year. By contrast, both its local schools and higher education institutions reported increases.
- **Maryland:** The state experienced a particularly notable drop in its corrections officers, thanks to a declining prison population

that has allowed the state to close a few of its aging facilities and problems filling vacancies. The Department of Public Safety and Correctional Services recently announced a hiring bonus for new officers. In all, total state government employment dipped 2.7 percent last year.

- **Montana:** The state employs fewer than 13,000 public employees, down 2.7 percent from 2015. The Census data indicate nearly every area of state government experienced a slight reduction in its workforce. More recently, the state announced additional cuts after revenues failed to meet projections and lawmakers rejected proposed tax increases.
- **Illinois:** The size of the Illinois state government workforce has fluctuated a bit in recent years but has stayed relatively flat. Last year, staffing for nearly all types of agencies experienced downsizing, with an overall reduction of 2.6 percent. One area that did not decline was state law enforcement personnel, which added about 1,100 jobs.

5. SEVEN REMINDERS FOR TAXPAYERS FILING THEIR 2016 TAX RETURNS BY OCTOBER 16: Every year, millions of taxpayers ask for an extra six months to file their taxes. These taxpayers should have paid the tax they owed by the April deadline, but those who requested an extension should mark Monday, October 16 as the extension deadline for 2017. While the deadline normally falls on October 15, that date falls on a Sunday this year so the due date is

moved to the next business day. Here are seven reminders for taxpayers who have not yet filed:

- **Try IRS Free File or e-file.** Taxpayers can e-file their tax return for free through [IRS Free File](#). The program is available on IRS.gov through October 16. IRS e-file is easy, safe and the most accurate way to file your taxes.
- **File by October 16.** Taxpayers with extensions should file their tax returns by October 16. If they owe, they should pay as much as possible to reduce interest and penalties. [IRS Direct Pay](#) allows individuals to securely pay from their checking or savings accounts. These taxpayers can consider an [installment agreement](#), which allows them to pay over time.
- **More Time for the Military.** Military members and those serving in a combat zone generally [get more time to file](#). If this applies to you, you typically have until at least 180 days after you leave the combat zone to both file returns and pay any taxes due.
- **More Time in Disaster Areas.** People who have an extension and live or work in a disaster area often have more time to file. The [disaster relief page](#) on IRS.gov has more information.
- **Use Direct Deposit.** The fastest way for taxpayers to get their refund is to combine [direct deposit](#) and e-file.
- **Use IRS Online Payment Options.** Taxpayers who find they still owe taxes can pay them with IRS [Direct Pay](#). It is the simple, quick and free way to pay from a checking or savings

account. For other payment options, taxpayers can click on the “Payments” tab on the IRS.gov home page.

- **Keep a Copy of Tax Return.** Taxpayers should keep a copy of their tax return and all supporting documents for at least three years. Among other things, this will make filing next year’s return easier. When a taxpayer e-files their 2017 return, for example, they will often need the adjusted gross income amount from their 2016 return.

6. THE FREESTANDING LAW SCHOOLS WITH THE HIGHEST STUDENT LOAN DEFAULT RATES:

Above the Law, time and time again, has warned both prospective and current law students about the dangers of student loans. Recent graduates of public law schools have an average debt of \$90,217, recent graduates of private law schools have an average debt of \$130,349 and the average class of 2016 graduate has an average debt of \$112,389. With debt loads that large, it is imperative that law school graduates secure employment with salaries high enough to service those loans, lest they risk defaulting on their debts. Given the dismal employment statistics that some law schools have continued to post year after year, it seems obvious that graduates will have issues when it comes to repaying their debts; some graduates will allow their loans to fall into delinquency, and other graduates will default on their loans outright. The consequences of student loan default are **severe**, and can range from wage garnishments to Treasury offsets to acceleration of the

entire debt owed. This is not a situation that anyone would want to deal with at any time in their lives, but some law school graduates have been forced to endure the disastrous repercussions of default. Are graduates of your law school at risk of defaulting on their student loans? The latest information from the U.S. Department of Education may provide some guidance. During the tracking period for Fiscal Year 2014 — which includes data from October 1, 2013 to September 30, 2016 — six freestanding law schools (*i.e.* law schools that are not affiliated with any college or university) reported student loan default rates greater than 2 percent. For the sake of comparison, five law schools posted default rates greater than 2 percent for Fiscal Year 2013, and six law schools reported student loan default rates greater than 2 percent for Fiscal Year 2012. These are the freestanding law schools with the highest student loan default rates for Fiscal Year 2014:

- Massachusetts School of Law:4.8 percent
- Thomas Jefferson School of Law:3.8 percent
- Appalachian School of Law:2.9 percent
- San Joaquin College of Law:2.6 percent
- Thomas M. Cooley School of Law:2.5 percent
- Atlanta’s John Marshall Law School: 2.3 percent

While you may not be able to control your employment opportunities, the federal government has provided loan holders with many

opportunities to avoid default. Use them wisely, and you may be able to save your financial futures from further damage.

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 Rhode Island it is illegal to race a horse on a highway. Racing or testing the speed of a horse over a public highway is illegal. Failure to comply will result in a \$20 fine or imprisonment of 10 days or less.

9. INSPIRATIONAL QUOTE: Every strike brings me closer to the next home run. – Babe Ruth

10. PONDERISMS: Opportunities always look bigger going than coming.

11. FUNNY TOMBSTONE SAYINGS: Some tombstones are clever and could make you die from laughter. One tombstone reads: The shop said the brakes were fixed right this time.

12. TODAY IN HISTORY: On this day in 1492 Christopher Columbus's expedition makes landfall on the Caribbean island he

named San Salvador (likely Watling Island, Bahamas). The explorer believed he had reached East Asia.

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.