

CYPEN & CYPEN

NEWSLETTER

for

September 21, 2017

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

**OFFICE CLOSED TODAY, SEPTEMBER 21, 2017, IN OBSERVANCE OF
ROSH HASHANA, THE JEWISH NEW YEAR**

1. OVER 57% OF AMERICANS HAVE LESS THAN \$1,000 IN

SAVINGS: More than half of Americans have less than \$1,000 in savings, a new survey found. In fact, 39 percent of survey respondents said they had no money set aside in savings at all. For the second consecutive year, personal finance website www.gobankingrates.com asked more than 8,000 Americans how much money they have in their savings accounts. The results revealed that 57 percent of Americans have less than \$1,000 in savings — a significant improvement from a similar survey in 2016, which found that 69 percent of respondents had less than \$1,000 set aside. However, the percentage of people with \$0 in savings has climbed to 39 percent from 34 percent in 2016. The data are broken down state by state to determine which states had the

highest percentage of Americans with little to no savings.

States With the Highest Percentage of Residents With \$0 in Savings

- **Washington, D.C.** - 48 percent of residents have \$0 in savings
- **Massachusetts** - 48 percent of residents have \$0 in savings
- **Hawaii** - 47 percent of residents have \$0 in savings
- **Wyoming** - 47 percent of residents have \$0 in savings
- **New Mexico** - 47 percent of residents have \$0 in savings

States With the Highest Percentage of Residents With \$10,000 or More in Savings

- **Kansas** - 38 percent of residents have \$10,000 or more in savings
- **Washington** - 35 percent of residents have \$10,000 or more in savings
- **New Jersey** - 34 percent of residents have \$10,000 or more in savings
- **North Dakota** - 34 percent of residents have \$10,000 or more in savings
- **Kentucky** - 32 percent of residents have \$10,000 or more in savings

Additional Study Insights - Sixty-seven percent of young millennials have less than \$1,000 in savings — down from 72 percent in 2016. Sixty-one percent of older millennials now have less than \$1,000 in savings, compared with 67 percent in 2016. The percentage of young Gen Xers with less than \$1,000 saved fell 18 percentage points this year. Thirty-three percent of baby boomers say they have \$0 saved. Men have more savings than women, overall. Sixty-two percent of women say they have less than \$1,000 in savings

versus 52 percent of men.

2. IRS DOES NOT APPROVE IRA INVESTMENTS: If you have an Individual Retirement Arrangement (IRA), you should be alert to questionable advertisements and solicitations for “IRS Approved” or “IRA Approved” investments, says www.irs.gov. These advertisements or solicitations, often for highly speculative or non-traditional types of investments, mislead by falsely claiming that IRS has approved a particular investment. Here is an example of a Fraudulent “IRA Approved” Sales Pitch: “This investment has been approved for your IRA. This has been reviewed by the government (or IRS).” We urge you to carefully consider the soundness of your IRA investments and to be aware of the current tax rules for IRAs. Protect Yourself Against “IRA Approved Schemes.” The IRS does issue letters to IRA sponsors, trustees and custodians certifying that they are complying with requirements concerning investor rights, account administration, and standards for the establishment of documents that allow contributions to be deductible. But, the IRS does not review or approve investments, endorse any investments, advise people on how to invest their IRAs, issue any statement that an investment in an IRA is protected because a particular trustee or custodian has been approved by the IRS.

3. CHICAGO SCORES LEGAL VICTORY IN SANCTUARY CITY BATTLE WITH ATTORNEY GENERAL JEFF SESSIONS: Acting on a lawsuit filed by the city of Chicago, a judge said the Trump administration cannot withhold law-enforcement grant money from “sanctuary cities” that refuse to follow tough new Justice Department immigration requirements — such as giving federal agents access to municipal jails, reports www.Chicago.suntimes.com. U.S. District Judge Harry Leinenweber sided with Chicago in its lawsuit against U.S. Attorney General Jeff Sessions, issuing a preliminary injunction with nationwide reach. The ruling means cities cannot be barred from receiving an annual federal grant based on their cooperation with immigration agents. The Mayor said the court’s decision carried a message to the Trump administration that the attempt to make a city abandon its values to seek resources, and abandon its principles of community policing, is wrong. Chicago will never relinquish its status as a welcoming city, he said. It is part of the city’s history and future. The city sued Sessions, after the U.S.

Department of Justice ordered cities to: give notice 48 hours before releasing undocumented immigrants from custody; allow immigration agents access to jails; and share citizenship information with the feds. By not complying, the city would have been ineligible for Edward Byrne Memorial Justice Assistance Grants, the leading source of federal law enforcement grant funding. The court held that the city was likely to prove Sessions exceeded his authority and that it would cause irreparable harm to provide notice of release, or to grant immigration agents access to jails. The judge did not issue an injunction blocking information sharing, however. Chicago Corporation Counsel said that the conditions require the city to choose between community policing and the values of a “welcoming city.” The mayor agreed, saying that following them would be driving a wedge. Chicago has applied for a \$2.2 million grant that would be used for ShotSpotter gun-detection technology. In his decision, the judge said the injunction was nationwide because there is no reason to think that the legal issues present in this case are restricted to Chicago. Thirty-seven cities, counties and municipal organizations, and many other groups, filed briefs in support of the lawsuit. One was filed by the National Immigrant Justice Center. The center provides free legal services to immigrants, refugees and asylum seekers in Chicago, Indiana and Washington D.C. Imposing the access and notification conditions would have been a serious blow to the protection of immigrants in the city and also to the population at large, because everyone needs to feel safe and know that they can go to the police if they are involved with or witness to a crime. The Justice Department said that the injunctions make the city of Chicago less safe, and that sanctuary cities undermine the rule of law by protecting criminals from immigration enforcement.

4. AMERICAN HOUSEHOLD INCOME FINALLY TOPPED 1999 PEAK

LAST YEAR: The *Washington Post* reports that in a stark reminder of the damage done by the Great Recession and of the modest recovery that followed, the median American household only last year finally earned more than it did in 1999. Incomes for a typical U.S. household, adjusted for inflation, rose 3.2 percent from 2015 to 2016 to \$59,039, the Census Bureau said. The median is the point at which half the households fall below and half are above. Last year’s figure is slightly above the previous peak of \$58,665, reached in 1999. It is also the first time since the recession ended in 2009 that the typical

household earned more than it did in 2007, when the recession began. The bureau cautioned that the census in 2013 changed how it asks households about income, making historical comparisons less than precise. Still, the Census data are closely watched because of its comprehensive nature. They are based on interviews with 70,000 households and include detailed data on incomes and poverty across a range of demographic groups. A senior economist at the Economic Policy Institute, said that adjusting for the change in methodology, median income still remains below its 1999 peak.

Improvement comes after a steep recession and a slow recovery that left most American households with barely any income increases. The lack of meaningful raises has left many people feeling left behind economically, a sentiment that factored into the 2016 elections. The report also showed that income inequality worsened last year, extending a trend in place for roughly four decades. Average incomes among the wealthiest 5 percent climbed 5.5 percent to \$375,088. Average incomes for the poorest one-fifth of households, meanwhile rose 2.5 percent to \$12,943. Other measures of Americans' economic health improved. The poverty rate fell last year to 12.7 percent from 13.5 percent, Census said. The number of people living below the poverty line declined 2.5 million to 40.6 million. That brings the proportion of households living below the poverty line back to pre-recession levels, though it remains about one-half percentage points higher than its lowest point, in 2000. A family of four with an income below \$24,563 was defined as poor last year. And the proportion of Americans without health insurance fell to 8.8 percent, the report showed, down from 9.1 percent. It is the lowest proportion on record. The Census report covers 2016, the last year of the Obama administration. The income gains reflect mostly a rise in the number of Americans with jobs and in people working full time, the agency said. That means households were more likely to include a full-time worker. It also suggests that pay raises for those who already had jobs remained meager. About 1.2 million more Americans earned income in 2016 than in 2015, and 2.2 million more had full-time year-round jobs. Incomes rose for most demographic groups. African-American median household income jumped 5.7 percent to \$39,490 in 2016 from the previous year, the most of any group. Among Latinos, it rose to 4.3 percent to \$47,675. For whites, the gain was 2 percent to \$65,041. Asian-Americans reported the highest household incomes, at \$81,431, which was little changed from 2015. The CBPP said the

gains among African-Americans typically occur later in an economic recovery as employers widen their searches and step up hiring among traditionally disadvantaged groups. The solid economy is helping to close racial gaps. It will not make them go away, but it is headed in the right direction. The report found that the gender gap in wages narrowed last year for the first time since 2007. Women earned 80.5 percent of men's earnings, up from 79.6 percent in 2015. Still, underneath the broad improvements nationwide, pockets of hardship remain. Poverty rates fell in the Northeast and South in 2016 but were mostly unchanged in the Midwest and West.

5. A SECOND 'FIRST LOOK' AT ALTERNATIVE INVESTMENTS AND

PUBLIC PENSIONS: Alicia Munnell, writing in www.marketwatch.com, and her co-authors have been laughing at themselves over a [recent brief](#), (See item No. 1 in Newsletter dated September 7, 2017, www.cypen.com/pubs/09-17/2017sep07.htm). They were concerned that their topic and findings were explosive. So they had it reviewed by everyone under the sun, and still nervous, they titled it "A First Look at ..." Similarly, it starts, with "this brief begins to explore ..." And it concludes with "while the focus on returns and volatility may be too narrow and the time periods analyzed too short to draw any definitive conclusions – the relationship between alternatives and public plan performance merits further analysis." Long story short: The brief landed with a thud. Nobody has said anything positive or negative. Perhaps all those cautionary and equivocating statements drove people away. Well it is not a boring topic, and they did find somewhat astounding results. Since the financial crisis, public pension plans — like other large institutional investors — have moved a significant portion of their portfolios into investments outside of traditional equities, bonds, and cash. These alternative investments include a diverse assortment of assets – private equity, hedge funds, real estate, and commodities. The more than doubling of the allocation to alternatives (from 9% to 24%) between 2005 and 2015 reflects a search for greater yields and less volatility. Were the plans successful? The authors estimated four separate equations that test the relationship of alternative investments to observed portfolio returns and volatility. The first equation relates the average after-fee portfolio returns for 160 state and local plans over the periods 2005-2015 and 2010-2015 to the percentage of the portfolio held in alternatives, controlling for other factors that could have affected returns. The results of the

regression equation show that, relative to traditional equities, holding 10% more of the plan's portfolio in alternatives is associated with a lower return of 32 to 44 basis points, all else equal. Yes, they know that alternatives are not a single homogeneous asset class, so they estimated an equation that relates the average portfolio returns to holdings in the four major alternative asset classes. The results show that the negative relationship between alternatives and overall portfolio returns stems primarily from hedge funds, which have experienced low returns relative to other asset classes since the financial crisis. No alternative had a statistically significant positive impact on returns. How about volatility? A third regression relates holdings in alternatives to the volatility (standard deviation) of overall portfolio returns. The results show that, as a group, alternatives did not have a statistically significant effect on volatility in either the 2005-10 or 2010-15 period. The reason for the lack of impact on volatility is that while larger holdings of hedge funds reduce volatility, this effect is offset by the greater volatility associated with real estate and commodities. Yes, this analysis should be viewed as preliminary and the periods under examination may be too short fully to evaluate performance of some alternative asset classes. Nonetheless, a "First Look" does raise some interesting questions. Ha!

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 Oklahoma horse tripping is outlawed. It is prohibited to promote, engage in or be employed at a horse tripping event in Oklahoma after it was ruled unlawful due to animal cruelty. Bravo!

8. CYNICAL THINKING: Did you know that dolphins are so smart that within a few weeks of captivity, they can train people to stand on the very edge of the pool and throw them fish?

9. PONDERISMS: Not one shred of evidence supports the notion that life is serious.

10. FUNNY TOMBSTONE SAYINGS: Some tombstones are clever and could make you die from laughter. For example, one tombstone reads: My doctor finally did something that stopped the pain, but the side effects are murder!

11. TODAY IN HISTORY: On this day in 1981 Sandra Day O'Connor is unanimously approved by the U.S. Senate as the first female Supreme Court justice. [We really miss you, Sandy.]

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.