



CYPEN & CYPEN
NEWSLETTER
for
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Stephen H. Cypen, Esq., Founding Editor
Robert D. Klausner, Esq., Senior Editor
Never Forget September 11, 2001
and
Always Remember May 2, 2011

1. WORKING PEOPLE NEED ACCESS TO GUARANTEED

INCOME IN RETIREMENT: We have written a lot on this blog about how 401(k)s and other defined contribution plans fail to provide adequate retirement savings for most working people. There is now plenty of evidence that most workers will not save anywhere close to the recommended amount needed to retire securely. Even if workers do manage to save a substantial amount in their 401(k), are they able to make the money last in retirement? This is a question that is less frequently discussed, but is very important. According to a recent survey by TIAA, 61 percent of Americans worry about outliving their savings and 68 percent worry that they will not save enough for retirement. That worry is a legitimate one. Let's consider the hypothetical example of a worker retiring today at age 65 who has saved \$500,000 in a 401(k), far above the national average. The average life expectancy in the United States is 78 years, so this retiring worker needs to plan how to spend that \$500,000 over the course of 13 years. However, it is just as likely that this worker could die earlier than expected and leave a large amount of money unspent or could live another 15 or 20 years and outlive his savings. One option for workers who save in a 401(k) is to purchase an annuity, which does provide a guaranteed monthly income in retirement. Annuities are a very underutilized resource. According to TIAA, only half of working Americans are familiar with annuities and few have actually purchased an annuity in preparation for retirement. There are

behavioral barriers that prevent more people from purchasing annuities. One major issue is how to appropriately price the annuity so that what a worker pays to purchase the annuity actually results in a fair monthly income during retirement. Some have proposed allowing Social Security to sell lifetime annuities, which workers would be able to purchase with their 401(k) savings. This is an idea that was actually included in the original Social Security proposal, but was removed during the legislative process. Defined benefit pensions provide a guaranteed monthly income during retirement. They avoid the problem created by 401(k) plans because defined benefit pensions are a superior plan design. Pensions collectively pool the contributions of employers and workers and then pay out benefits to individual workers as they retire. The actuaries who work for pension plans make projections of how long workers will live so that pensions can plan how much they will need to pay benefits whether an individual retiree lives for 13 years or 30 years after retirement. Working people want access to guaranteed income in retirement. TIAA found that more than half of active workers say their top goal in retirement is to guarantee enough monthly income to cover their expenses. As policymakers discuss potential solutions to the retirement savings crisis, it is important to remember that one of the strongest features of defined benefit pensions is the guarantee of monthly income in retirement, a feature that is highly valued by working people. See the article at www.protectpensions.org/2017/12/13/working-people-guaranteed-income-retirement.

2. LOOMING PENSION SHORTFALLS TO COMPLICATE NEXT

SHUTDOWN FIGHT: The next potential sleeper cause of a government shutdown? Pensions. Congress barely averted a shutdown last year amid a fight over miners' health care, says *Politico*. Now the looming collapse of pension plans for the miners — as well as thousands of Teamster truck drivers and food service workers — is fueling another, even more expensive, round of brinkmanship. Key Democrats are vowing to fight for a fix as part of any forthcoming deal to fund the government. And they warn that if Congress does not step in soon to forestall the insolvency of several key pension plans — including the massive Central States plan, which covers an estimated 400,000 union workers and retirees — taxpayers risk ending up on the hook for an even bigger multibillion-dollar rescue for the government's pension guarantee agency. But it is far from clear the workers will get their rescue. Conservative Republicans will be loath to provide anything that looks like a bailout, particularly for union workers. And one of the Senate's leading Democratic advocates for relief, Sherrod Brown of Ohio, is one of the GOP's top targets ahead of his reelection campaign next year. Brown said in an interview that he sees the pensions fix as a "moral appeal" for action, along the lines of the Democrats' push to help the young undocumented immigrants known as Dreamers. There are tens of thousands of Teamsters and mine workers and bakery and confectionery workers and carpenters that will see huge cuts in their pensions, and they start pretty soon if a long-term solution is not

reached. It is not just fixing it and getting it done because the economics and the math get worse and worse. It is because of what it does to families.

3. THIRTEEN CHINA PENSIONS WILL BE UNABLE TO PAY ONE YEAR'S WORTH OF PENSIONS:

As China battles its aging population and pension scheme shortfalls, 13 funds in regions and administrative units are unable to finance less than one year's worth of retirement benefits, reports *Chief Investment Officer*. Citing China's 2016 Social Security Development Annual Report, the official Beijing News reported that Guangxi, Jiangxi, Hainan, Inner Mongolia, Hubei, Shaanxi, Tianjin, Hebei, Liaoning, Jilin, Qinghai, Heilongjiang, and the Xinjiang Production and Construction Corps are all currently in dire straits when it comes to the state of paying their beneficiaries, as each fund falls under the "less than one year's worth" category. One fund slightly better off than the others is Guangdong province, which can pay 55.7 months' worth of pensions. According to the report, the total expenditures of China's urban employee pension funds increased 23.4% on year to 3.19 trillion yuan. At the same time, total incomes grew 19.5% to 3.51 trillion yuan. Deputy Director of Pension Insurance at the Ministry of Human Resources and Social Security, Jia Jiang told the Beijing News that China has more than 230 million people over age 60. In 2050, Jiang predicted the pensioner to worker ratio will be 1:1.3. China will soon begin a pilot program to transfer shares in state-owned firms to social security funds, where the initial trial will limit the plan to small portion of central and provincial firms,

Reuters reports.

4. AVERAGE US HOUSEHOLD OWES \$15,654 IN CREDIT CARD

DEBT: As 2017 comes to a close, many Americans will set financial goals for the upcoming year, reports *Yahoo Finance*. Based on a recent survey, we are guessing those goals will probably include paying down debt. NerdWallet released its Household Credit Card Debt Study, revealing that Americans owe an estimated \$905 billion in credit card debt. That figure is up 8% from last year, and includes balances from cardholders who pay off their cards every month, as well as those who carry a balance from month to month. Boiled down, the average household owes \$15,654 in credit card debt. This data is alarming, but not record-breaking. According to NerdWallet, Americans owe \$8.74 trillion in mortgage debt, \$1.21 trillion in auto loans, and \$1.36 trillion in student loans. Why so much debt? It is no secret that Americans love their plastic, but why has the amount of debt continued to rise? For starters, more and more Americans are putting medical expenses on their credit cards. In the survey, 17% of respondents said they are in debt because they spent money on an emergency medical expense. But that is just the tip of the iceberg. According to the Bureau of Labor Statistics, health care costs have increased 34% over the past decade, while income has only grown 20%. To keep up with bills, a whopping 27 million adults are putting medical expenses on a credit card. A 2016 survey from the Kaiser Family Foundation echoed the same problem: 37% of respondents increased credit card debt to pay medical bills. Spending has also

climbed in other categories, including food (22%) and housing (20%). The increase in debt can also be attributed to interest rates. In the survey, 41% of respondents admit to spending more than they should on unnecessary purchases. Spending more can lead to carrying a balance, which leads to more money spent paying interest. For instance, if you keep a balance of \$6,081, with an interest rate of 14.87%, you will end up paying \$904 in interest per year. What you can do First and foremost, Americans need to get honest about their spending. If you are charging purchases that you cannot afford to pay off right away, or if you are living above your means, it is time to rein it in. Only then can you start to address your growing debt. In a perfect world, you would pay off your credit card balance in full every month. Still — sadly — only 1 in 5 (about 18%) of Americans actually do this. In reality, about one-quarter of cardholders say they pay whatever they can afford at the end of the month, and 23% say they only pay the minimum amount due. If you can't pay off your full balance every month, that is OK. Focus on keeping interest payments as low as possible. "To reduce the amount of interest you're paying, consider making payments more frequently than once a month to keep your average daily balance down," said Kimberly Palmer, NerdWallet's credit card expert. Palmer also suggests consolidating your debt onto a card with 0% introductory APR. This way, you can work on paying down debt during the interest-free 12- to 18-month introductory period. The online survey was conducted by Harris Poll, and surveyed 2,089 adults ages 18 and older. NerdWallet also used data from the US Census Bureau and the Federal Reserve Bank of New York.

5. GET READY FOR TAXES: WHAT TO DO BEFORE THE TAX

YEAR ENDS DEC. 31: For most taxpayers, Dec. 31 is the last day to take actions that will impact their 2017 tax returns. For example, charitable contributions are deductible in the year made. Donations charged to a credit card before the end of 2017 count for the 2017 tax year, even if the bill is not paid until 2018. Checks to a charity count for 2017 as long as they are mailed by the last day of the year.

Taxpayers who are over age 70 ½ are generally required to receive payments from their individual retirement accounts and workplace retirement plans by the end of 2017, though a special rule allows those who reached 70 ½ in 2017 to wait until April 1, 2018, to receive them. Most workplace retirement account contributions should be made by the end of the year, but taxpayers can make 2017 IRA contributions until April 18, 2018. For 2018, the limit for a 401(k) is \$18,500. For traditional and Roth IRAs, the limit is \$6,500 if age 50 or older and up to \$15,500 for a Simple IRA for age 50 or older. Check [IRS.gov](https://www.irs.gov) for more [information](#) about cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2018. Taxpayers should be careful not to count on getting a refund by a certain date, especially when making major purchases or paying other financial obligations. Taxpayers can take steps now to make sure the IRS can process their return next year. Taxpayers who have moved should tell the US Postal Service, employers and the IRS. To notify the IRS, mail IRS Form 8822, Change of Address, to the address listed on the form's instructions.

For taxpayers who purchase health insurance through the Health Insurance Marketplace, they should also notify the Marketplace when they move out of the area covered by their current Marketplace plan. For name changes due to marriage or divorce, notify the Social Security Administration so the new name will match IRS and SSA records. Also notify the SSA if a dependent's name changed. A mismatch between the name shown on your tax return and the SSA records can cause problems in the processing of a return and may even delay a refund. Some refunds cannot be issued before mid-February. By law, the IRS cannot issue refunds before mid-February for tax returns that claim the Earned Income Tax Credit or the Additional Child Tax Credit. The IRS expects the earliest EITC/ACTC related refunds to be available in taxpayer bank accounts or on debit cards starting on Feb 27, 2018, if they chose direct deposit and there are no other issues with the tax return. Some Individual Taxpayer Identification Numbers must be renewed. Any Individual Taxpayer Identification Number not used on a tax return at least once in the past three years will expire on December 31, 2017. Additionally, all ITINs issued before 2013 with middle digits of 70, 71, 72 or 80 (Example: 9XX-70-XXXX) will also expire at the end of the year. As a reminder, ITINs with middle digits 78 and 79 that expired in 2016 can also be renewed. Only taxpayers who need to file a U.S. federal tax return or are claiming a refund in 2018 must renew their expired ITINs. Affected ITIN holders can avoid delays by starting the renewal process now. Those who fail to renew before filing a return could face a delayed refund and may be ineligible for some important tax credits.

More information, including answers to frequently asked questions is available on [IRS.gov/ITIN](https://www.irs.gov/ITIN). Keeping copies of tax returns is important. Taxpayers may need a copy of their 2016 tax return to make it easier to fill out a 2017 tax return. Some taxpayers using a software product for the first time may need to provide their 2016 Adjusted Gross Income, or AGI, to e-file their 2017 tax return. Taxpayers who do not have a copy of their 2016 return and are existing users can log in to [IRS.gov/account](https://www.irs.gov/account) if they need their AGI. Otherwise the IRS will mail a [Tax Return Transcript](#) if requested [online](#) or by calling 800-908-9946. Plan ahead. Allow five to 10 days for delivery. Learn more about [identification verification and electronically signing tax returns](#).

6. PNC CHRISTMAS PRICE INDEX PREDICTS HOLIDAY CHEER, NOT PRICES, ON THE RISE THIS YEAR: It is beginning to look (and feel) a lot like Christmas! If you are in the gift-giving mood, consider that purchasing all the gifts in the classic carol "The 12 Days of Christmas" will cost you \$34,558.65 in 2017, a boost of just about \$200 from last year. That is the official tally according to the 34th PNC Christmas Price Index. [PNC's Christmas Price Index®](#), or PNC CPI, is calculated using a method similar to the government's consumer price index (CPI) and measures the cost of buying the gifts given in the song, "The 12 Days of Christmas." By way of comparison, the government's CPI measures the cost of goods and services for consumers. Each month, the U.S. Bureau of Labor Statistics reports on the CPI; since those numbers are tied to inflation, they tend to be indicators on interest rates. That is important to taxpayers since the

Tax Code provides for mandatory annual adjustments to certain tax items based on interest rates. When the Internal Revenue Service (IRS) announced the annual adjustments for 2018, the numbers meant savings for most taxpayers. Why? A higher CPI pushes the brackets upward and increases the standard deduction and exemption amounts, which means that the taxes due on the same income will decrease. To keep the comparison between government and its own index fair, PNC removes the cost of the swans, typically the most volatile item in the list (the government similarly excludes energy and food prices). By taking the swans out, PNC's core CPI rose just .9% (the government's core CPI increased by 1.7%). Of the 12 items on the list in 2017, nine remained the same as last year. The outliers? Buying a partridge in a pear tree will cost you 4.7% more this year but do not blame the bird: the cost of the pear tree increased by 5.2% due to the increased cost of living for workers and the limited supply of larger, more mature trees. The Lords-a-Leaping also saw an increase, as prices jumped 2%. But the real mover this year was those Five Gold Rings: the cost of gold boosted the cost of the rings by a whopping 10%.

Here is the entire list together with the percentage changes from 2016:

1. Partridge in a Pear Tree: \$219.95 (+4.7%)
2. Turtle Doves: \$375.00 (no change)
3. French Hens: \$181.50 (no change)

4. Calling Birds: \$599.96 (no change)
5. Gold Rings: \$825.00 (+10.0%)
6. Geese-a-Laying: \$360.00 (no change)
7. Swans-a-Swimming: \$13,125.00 (no change)
8. Maids-a-Milking: \$58.00 (no change)
9. Ladies Dancing: \$7,552.84 (no change)
10. Lords-a-Leaping: \$5,618.90 (+2.0%)
11. Pipers Piping: \$2,708.40 (no change)
12. Drummers Drumming: \$2,934.10 (no change)

If you add up the cost of all the gifts in 12 Days of Christmas song this year, it would cost you \$34,558.65, about \$200 more than last year's total. If, however, you *really* want to impress your true love by nabbing all 364 items – the number of the items as repeated throughout the song over and over (and over) – you would have to cough up \$157,558.00, about \$1,000 more than last year. Those prices reflect the cost of shopping the traditional way: actually going to jewelry stores, plant nurseries and hiring talent in person. If you bought all of these items on the internet, however, you would pay \$45,096, or \$10,538 more than walking into a store. That is largely attributable to shipping costs – despite lower fuel costs overall, it is apparently pretty expensive to ship swans and doves. Sales tax (or use tax, if you are shopping online) might be payable on your Christmas gifts – but that varies by location. While most states impose some level of sales tax, there is dramatic variation between what goods and services are subject to tax. This is especially true when it comes to the costs of

services. PNC is located in Pennsylvania where food (except for ready-to-eat), most clothing apparel, and medicines are nontaxable. But that pear tree? Taxable. Those gold rings? Taxable. Pets and most animals? Also taxable. Those milkmaids, however? Not taxable; as a farm and dairy state, most dairy-related services are exempt. Figuring the exemptions from state to state would be wildly time-consuming, so the CPI is tax neutral. PNC has figured the CPI each year since 1984. Prices this year are 83% higher than they were in that inaugural year when the cost of the gifts totaled \$18,845.97. Here is how prices have fluctuated over the years: *12 Days Of Christmas history*. For most of that time, Rebekah McCahan, Vice President & Investment Strategist, PNC Asset Management Group has been in charge of tallying up those costs. McCahan gets most of her shopping information directly from the source: a national game bird supplier assisted with the cost of the partridge and turtle doves. The sources for the prices generally remain the same to promote consistency. They have, however, changed when necessary - along with economic trends. For an in-depth look at the numbers, you can find the price chart [here](#).

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 Wisconsin butter substitutes are banned without permission. Apparently, nothing is better than Wisconsin's butter. A public eating establishment may not serve margarine as a substitute for butter unless requested by the customer in fear of sudden allergic reactions.

9. INSPIRATIONAL QUOTE: Definiteness of purpose is the starting point of all achievement. - W. Clement Stone

10. LEXOPHILES: A will is a dead giveaway.

11. FUNNY TOMBSTONE SAYINGS: Wait! I wanted a tomb with a view.

12. TODAY IN HISTORY: On this day in 1968, the Apollo 8 spacecraft was the first manned moon voyage launched with Frank Borman, Jim Lovell and William Anders.

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

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