CYPEN & CYPEN NEWSLETTER for November 16, 2017

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

1. THE "PENSION CRISIS" IS STILL A MYTH: Since the Great Recession in 2008, warnings of an impending pension crisis have been splashed across the business pages of newspapers across the country. Despite these boisterous decrees, America's public pension funds are stable. The *National Public Pension Coalition* explores the

roots behind the false pension crisis narrative and examines the facts. Anti-pension ideologues like to peddle a lot of misinformation regarding public pensions and their true costs. One falsehood that gets repeated often is that paying for public pensions “crowds out” spending on other priorities for municipal and state governments. The reality is that this argument presents a false choice. Public pensions are cost-effective and represent a small portion of most governments’ budgets. According to the National Association of State Retirement Administrators (NASRA), public pensions, on average, represent 4.5 percent of direct government spending for state and local governments. This is significantly less than their spending in other areas, such as education and health care. Also, employer contributions, which, in the case of public pensions, ultimately come from the taxpayer, make up about 20-25 percent of revenues for public pension funds. The majority of money going into public pensions comes from the employee’s own contributions and investment earnings. Since so much money in pension funds is generated through investment earnings, public pensions actually represent a huge return on investment for cities and states. The National Institute on Retirement Security (NIRS) calculates that the national average is that for every dollar invested in a pension fund, $2.21 is generated. This money goes directly into local economies through the spending of retirees. Cities and states are actually getting back more money than they spend on public pensions. The misleading “crowding out” argument also relies on the false assumption that city and state governments have a fixed pot of money

to spend. The truth is that many cities and states lose millions of dollars every year though corporate subsidies, tax loopholes, and other giveaways. Just witness the mad scramble to land Amazon's HQ2 (SEE Newsletter of November 9, 2017, item #1). Hundreds of cities and states across the nation rushed to give lavish tax breaks and other incentives for Amazon to choose them as the site of their second headquarters. Even states like Illinois, New Jersey, and Pennsylvania, which are supposedly so burdened by public pensions that they cannot make their full contributions each year, offered Amazon billions of dollars in tax breaks. It seems that these states suddenly do have the money when major corporations come calling. Sadly, Amazon's HQ2 is not an isolated incident. As a recent series of reports from Good Jobs First revealed, many states give away more each year in corporate subsidies and tax breaks than the cost of fully funding public pensions. Take, for example, Kentucky, home to a major fight over the future of public pensions. Good Jobs First found that the annual cost of funding public pensions is only two-thirds of the cost of corporate giveaways in the state. What is even more revealing, however, is a report from the Office of the State Budget Director that found Kentucky actually gives away more in tax breaks each year than it collects in tax revenue. Let that sink in for a moment. Kentucky's tax code is so full of loopholes that the state actually loses more money than it collects. If Kentucky needs more money to fund its public services, then fixing its porous tax code seems like a pretty obvious place to start. Again, Kentucky is not an outlier. Kansas offers another cautionary example. Several years ago, the state began what

the governor called a “live experiment” in tax policy. The experiment was a complete disaster. By embracing Gov. Brownback’s extreme right-wing tax policy, the state lost much-needed revenue and the state’s budget has been decimated as a result. Guess what got cut when the money dried up? Funding for public schools. The budget for road repairs. Funding for libraries and local health services. When those areas could not be cut any more, the state skipped payments for public pensions. A similar situation is playing out south of the border in Oklahoma, another state that embraced harmful, but less extreme tax cuts and is now suffering from lost revenue and massive budget cuts. Due to the state legislature’s inability to raise revenue and pass an adequate budget, state agencies in Oklahoma will face deep across-the-board budget cuts in early December. The Department of Mental Health and Substance Abuse Services could see its entire budget eliminated after December 1st. The reality is that funding public pensions does not “crowd out” spending in other areas. While the promoters of the pension crisis myth may be fond of this tale, it is simply not backed up by the facts. Public pensions represent a small part of overall government spending. In many states, the cost of funding pensions is dwarfed by subsidies and tax giveaways to profitable corporations. It is important to keep in mind the full picture of government revenue and spending when discussing paying for critical public needs. The “crowding out” argument is simply another way for anti-pension ideologues to attack public pensions.

2. RETURNS BOOST PENSION FUNDED RATIOS IN Q3

2017: The funded status of the model pension plan examined by Sibson Consulting and Segal Marco Advisors went up by 1 percentage point to 83% in the third quarter of 2017, reports *Plan Sponsor.* The firms say the funding increase was due to a 4% rise in asset value that offset a 2% liability increase. Domestic stocks were positive for an eighth consecutive quarter, but were outperformed by both developed international and emerging market stocks, aided somewhat by a weakening dollar. Pan sponsors should set a course of action as their funded status changes over time. Particularly for closed or frozen plans, setting a thoughtful course of action, or journey, can be a prudent way to avoid merely reacting to new data as they emerge. As plan sponsors start to crystallize strategies and tactics for 2018, this might be an appropriate time to raise the issue of examining the plan's risk-mitigation strategy. Meanwhile, Conning's Pension Funded Status Tracker found its model plan's funded status improved by 2%, from 81% as of June 30 to 83% as of September 30. The firm explains that over Q3 2017, favorable asset portfolio performance was partially offset by an increase in liabilities. The growth portfolio saw a strong quarter as risk assets continued to rally. The hedging portfolio also increased in value as yields fell over July and August, but most of the gains were erased in September as yields rose. Liability factors had an overall negative impact in Q3 2017 due to a decrease of approximately 5 basis points in the effective discount rate. Ten-year Treasury yield marginally rose over the period, marking a 3 basis point increase. A decrease in high quality spreads by roughly 7 basis points was the key driver in the decline in the discount

curve. Conning further breaks down the asset performance in Q3. Among equities, the S&P 500 returned 4%, the Russell 2000 returned 6%, the MSCI World ACWI returned 5% and the EAFE returned 5%. Among alternative investments, private equity gained 6% in Q3, hedge funds gained 2%, while real estate gained 1%. Among fixed income, high-yield vehicles returned 2%, U.S. Aggregate gained 1%, U.S. Long Gov/Credit returned 2%, U.S. Long Credit gained 2% and U.S. Long Corporate AA returned 2%. Conning tracks the performance of the average defined benefit pension plan of corporate sponsors made of the Russell 3000 Index. The average plan size is approximately $3.8 billion in assets and $4.6 billion in liabilities. The plan's liability is a hypothetical cash flow generated from its proprietary model to reflect a 13-year duration and valuation equivalent to the plan's pension benefit obligation (PBO) on a U.S. generally accepted accounting principles (GAAP) valuation basis.

3. 10 MILLION TAXPAYERS FACE AN ESTIMATED TAX PENALTY EACH YEAR; ACT NOW TO REDUCE OR AVOID IT FOR 2017; NEW WEB PAGE CAN HELP: Internal Revenue Service reminds taxpayers assessed an estimated tax penalty for tax year 2016 that they still have time to take steps to reduce or eliminate the penalty for 2017 and future years. To help raise awareness about the growing number of estimated tax penalties, IRS has launched a new "Pay as You Go, So You Don't Owe" web page. The IRS.gov page has tips and resources designed to help taxpayers, including those involved in the sharing economy, better understand tax withholding,

making estimated tax payments and avoiding an unexpected penalty. Each year, about 10 million taxpayers are assessed the estimated tax penalty. The average penalty was about $130 in 2015, but the IRS has seen the number of taxpayers assessed this penalty increase in recent years. The number jumped about 40 percent, from 7.2 million in 2010 to 10 million in 2015. Most of those affected taxpayers can easily reduce or, in some cases, eliminate the penalty by increasing their withholding or adjusting estimated tax payments for the rest of the year. With a little planning, taxpayers can avoid the penalty altogether. By law, the estimated tax penalty usually applies when a taxpayer pays too little of the total tax during the year. The penalty is calculated based on the interest rate charged by IRS on unpaid tax. For most people, avoiding the penalty means ensuring that at least 90 percent of their total tax liability is paid in during the year, either through income-tax withholding or by making quarterly estimated tax payments. Keep in mind exceptions to the penalty and special rules apply to some groups of taxpayers, such as farmers, fishers, casualty and disaster victims, those who recently became disabled, recent retirees, those who base their payments on last year’s tax and those who receive income unevenly during the year. Taxpayers may want to consider increasing their tax withholding in 2017, especially if they had a large balance due when they filed their 2016 return earlier this year. Employees can do this by filling out a new Form W-4 and giving it to their employer. Similarly, recipients of pensions and annuities can make this change by filling out Form W-4P and giving it to their payer. In either case, taxpayers can typically increase their withholding by

claiming fewer allowances on their withholding form. If that is not enough, they can also ask employers or payers to withhold an additional flat dollar amount each pay period. For help determining the right amount to withhold, check out the Withholding Calculator on IRS.gov. Taxpayers who receive Social Security benefits, unemployment compensation and certain other government payments can also choose to have federal tax taken out by filling out Form W-4V and giving it to their payer. But some restrictions apply. See the form and its instructions for details. For taxpayers whose income is normally not subject to withholding, starting or increasing withholding is not an option. Instead, they can avoid the estimated tax penalty by making quarterly estimated tax payments to IRS. In general, this includes investment income —such as interest, dividends, rents, royalties and capital gains —alimony and self-employment income. Those involved in the sharing economy may also need to make these payments. Estimated tax payments are normally due on April 15, June 15, Sept. 15 and Jan. 15 of the following year. Any time one of these deadlines falls on a weekend or holiday, taxpayers have until the next business day to make the payment. Thus, the next estimated tax payment for the fourth quarter of 2017 is due Tuesday, Jan. 16, 2018. The fastest and easiest way to make estimated tax payments is to do so electronically using IRS Direct Pay or the Treasury Department's Electronic Federal Tax Payment System (EFTPS). For information on other payment options, visit IRS.gov/payments. Taxpayers may also use Form 1040-ES to figure these payments. IRS Publication 505, Tax Withholding and Estimated Tax, is a resource on withholding and

estimated payments.

4. LATINA WORKERS HAVE TO WORK 10 MONTHS INTO 2017 TO BE PAID THE SAME AS WHITE NON-HISPANIC MEN IN 2016: The *Economic Policy Institute* reports that November 2nd was Latina Equal Pay Day, the day that marks how long into 2017 a Latina would have to work in order to be paid the same wages as her white male counterpart was paid last year. That is just over 10 months longer, meaning that Latina workers had to work all of 2016 and then this far—to November 2nd!—into 2017 to get paid the same as white non-Hispanic men did in 2016. Unfortunately, Hispanic women are subject to a double pay gap—an ethnic pay gap and a gender pay gap. On average, Latina workers are paid only 67 cents on the dollar relative to white non-Hispanic men, even after controlling for education, years of experience and location. The wage gap between Latina workers and white non-Hispanic male workers persists across the wage distribution, within occupations and among those with the same amount of education. The 10th percentile Latina wage identifies the wage at which 10 percent of Latina workers earn less while 90 percent of Latina workers earn more. At the 10th percentile, Latina workers are paid $8.53 per hour, or 85 percent of the white male wage at the 10th percentile ($10.03 per hour). This wage gap—15 percent—is the smallest the gap gets, likely due to the wage floor set by the minimum wage. The gap rises to 41 percent at the middle of the wage distribution, and to 55 percent at the 95thpercentile. That means that even the best paid Latinas are paid half as much as the

best paid white non-Hispanic men. Latinas are, thus, vastly over-represented in low-wage jobs and relatively under-represented in high-wage jobs. In fact, Latinas' median wages are just above those of white men's 10th percentile wage. In other words, nearly half of all Latina workers are paid less than the 10th percentile white male worker. Meanwhile, by comparing the white male median to the 80th percentile Latinas' wages, you can see that more than half of white men are paid over $20 an hour while fewer than 20 percent of Latinas are. At the high end, only 1-in-20 Latina workers are paid more than white male workers at the 80thpercentile. Much of these differences are grounded in the presence of occupational segregation. Latina workers are far more likely to be found in certain low-wage professions than white men are (and less common in high-wage professions). But, even in professions with more Latina workers, they still are paid less on average than their white male colleagues. In every one of them, white men, on average, are paid more than their Latina counterparts. Since Hispanic women continue to be over-represented in low-wage jobs, policies that lift wages at the bottom will have a significant impact on their wages. An increase of the federal minimum wage to $15 by 2024 would affect more than 1-in-5 Latina workers. Average wages of Hispanic women and white non-Hispanic men by the ten most populous occupations for Hispanic women while some (incorrectly) argue that Latinas are choosing lower-paid professions, further education clearly does not close their sizable wage gaps with white non-Hispanic men. As Hispanic women increase their educational attainment, their pay gap with white men

actually *increases*. The largest dollar gap (more than $17 an hour), occurs for workers with more than a college degree. Even Hispanic women with an advanced degree earn less than white men who only have a bachelor's degree. That statistic bears repeating. White non-Hispanic men with only a college degree are paid, on average. Regardless of their place in the wage distribution, their level of educational attainment, or their occupation, Latinas are paid less than their white male counterparts. The ongoing gender and ethnic discrimination faced by Hispanic women means that ten months into 2017, Latinas finally reach the same typical pay as non-Hispanic white men earned last year. That means that over a 30 year span, Latinas would have to work another 25 years for them to earn the same over their working life as non-Hispanic white men. There is a lot of work to be done to improve the standard of living for the families of Latinas. More educational attainment and access to better quality education would certainly help to improve the Latinas' chances to move up the job ladder and get better paid jobs. However, this is not the whole story, since even after controlling for education the wage gap remains very large. Offering and facilitating access to occupations that are higher paid will also move Latinas up the occupational ladder. Here too, however, we find that even within the same occupations, Latinas fare worse. Lastly, it is important to improve equal pay for equal work provisions so that those women who do have the same education, the same occupation and are equally qualified in the workplace are not paid less or driven away from moving up to these more challenging positions.

5. STATES' FINANCIAL PRACTICES GET GRADED: *Governing* reports that most states are required to pass balanced budgets. But since the Great Recession, that is gotten harder and harder to do as states have been forced to reduce and reallocate spending. According to a new report from the Volcker Alliance, a nonprofit dedicated to effective government, the potential to defer or obfuscate in making these adjustments is very real. So to keep them honest, the alliance is grading all 50 states on their financial practices. In the first of what is expected to be an annual report, the findings are not pretty: Most states skimped on at least one major area of the budget, and some earned nearly failing grades in almost every category. The report grades states in five critical areas: forecasting accuracy; oversight and use of rainy day funds and other fiscal reserves; use of one-time fixes; adequately funding employee pensions and other benefits; and disclosing budget and related financial information. The area in which states collectively performed at their worst was long-term liabilities, such as pensions and retiree health care. States face nearly $2 trillion in these unfunded liabilities. The report dinged 19 of them with a D or D-, the lowest grades possible. Those legacy costs are the millstone hanging around a lot of states' and cities' necks right now. States performed best when it came to avoiding one-time gimmicks to balance the budget. Nearly half (22) earned an A. Still, the report noted that over the course of the last three years, 80 percent of states relied at least once on a one-time maneuver to keep their budgets balanced. The average grade earned for nearly all five categories was

a B; states averaged a C grade for managing their long-term liabilities. With the report, the Volcker Alliance joins credit ratings agencies in handing out grades to states. But while the credit rating agencies consider many of the same budget factors the alliance report does, the ratings are ultimately a measure of a government's likelihood of default, which is not the same as having one's fiscal house in order. Take Illinois. The state went two years without a budget, and saw multiple downgrades from ratings agencies. But it was still able to float bonds, and easily find buyers because no state in the modern era has defaulted on its debt. There is no reasonable risk of a state actually defaulting. But you had the governor and legislature acting in completely unpredictable ways that belied the understanding of almost anyone. So, the bonds of Illinois ended up trading almost like a day stock, which is terrifying to anyone in the market. Not surprisingly, Illinois is one of two governments that earned a D or lower in all but one category. It and Kansas both earned B’s in the financial transparency category. The report offers several policy recommendations, including having clear policies for withdrawing money from rainy day funds and other fiscal reserves; implementing rules for replenishing those funds; tying the size of fund balances to revenue volatility; and adopting a consensus approach to budget forecasting to reduce political influence. On that last item, the report highlights as a best practice Washington's Economic and Revenue Forecast Council, which includes representatives of the legislative and executive branches, as well as the state treasurer. When it comes to budget transparency, the report found that while all but four states

have a budget website, few actually contain the necessary data to help policymakers and advocacy groups make informed decisions. The report praised Colorado's website because it includes things like budget documents and instructions, budget amendments, fact sheets, archives and information from past years. Alaska and California stood out as well for being the only two states to earn an A in the category because they are the only ones that disclose the estimated cost of replacing depreciated infrastructure. Hawaii, Idaho and Utah received the most A's. They all earned an A in avoiding one-time fixes. Idaho and Utah received an A for legacy costs, while Hawaii got an A in budget forecasting. But the rest of their grades are a mix of C's and D's. It shows that no state is perfect. Many are good and some are very challenged.

6. RENTAL AFFORDABILITY CRISIS: WHERE IS COST BURDEN WORST?: As the U.S. renter population nears 44 million households — or 37 percent of U.S. households — and rents increase nationwide, rental affordability remains an important concern. **Nearly half of U.S. renters are "cost burdened," spending 30 percent or more of their income on rent.** The vast majority of low-income renters do not receive rental assistance. Nearly one in five renters were unable to pay their rent in full in the past three months. Households that struggle to pay rent often cut back spending on other basic necessities, and may ultimately face eviction, with lasting consequences. The inability to pay rent in full is more common with low-income renters because unexpected expenses, such as medical bills or car repairs, often leave

these renters with little income left over to put towards rent. Rental affordability is improving, as 2016 marks the fifth consecutive year in which renter incomes increased faster than rents, reducing the share of cost burdened renters. Unfortunately, the decrease in cost-burdened renters is due in part to an increase in high-income households in the rental market. Additionally, with nearly half of renters spending a third of their income on rent, and a quarter of renters spending half of their income on rent, rental affordability remains an important concern. Cost-burden rates are driven by both changes in rent and changes in income, leading renters in some pricey cities, such as San Francisco and Austin, to fare better than renters in struggling metros, such as Chattanooga and Hartford. Renters fare best in metros with moderate rents and strong wage growth, including Raleigh and Pittsburgh. While the cost burden share may look reasonable in pricey tech hubs, such as Seattle and Portland, this is likely due to a sorting of renters, with high-income renters entering the rental market and poor renters getting displaced. Despite the decrease in the share of cost-burdened renters, affordability continues to be a challenge for millions of renters. With cost-burdened rates of over 45 percent in most large metros, and over 10 million severely cost burdened renters nationwide, the lack of affordable housing remains a major challenge for renters. See the full report at www.apartmentlist.com/rentonomics.

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 Utah biting is banned in boxing. All we can say is the match that created this law is nothing like the studio class that you took last week. Unfortunately, the origin is unknown but maybe it is best to keep this one under wraps.

9. INSPIRATIONAL QUOTE: Your time is limited, so do not waste it living someone else's life.

10. PONDERISMS: I believe the only time the world beats a path to my door is when I am in the bathroom.

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: In 2015 the largest diamond discovered in more than a century, a 1,111 carat stone found in the Karowe mine, Botswana.

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.