



# **CYPEN & CYPEN**

## **NEWSLETTER**

**for**

### **June 21, 2018**

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

#### **1. AGENCIES ASK FOR PUBLIC COMMENT ON PROPOSAL TO SIMPLIFY AND TAILOR “VOLCKER RULE”:**

The following Federal Financial Regulatory Agencies have made a joint press release:

- Board of Governors of the Federal Reserve System
- Commodity Futures Trading Commission
- Federal Deposit Insurance Corporation

- Office of Comptroller of the Currency
- Securities and Exchange Commission

The agencies announced that they are jointly asking for public comment on a proposal that would simplify and tailor compliance requirements relating to the "Volcker Rule." By statute, the Volcker Rule generally restricts banking entities from engaging in prohibited proprietary trading and from owning or controlling hedge funds or private equity funds. The proposed changes are intended to streamline the rule by eliminating or modifying requirements that are not necessary to effectively implement the statute, while maintaining the core principles of the Volcker Rule as well as the safety and soundness of banking entities. Comments will be accepted for 60 days after the proposal's publication in the *Federal Register*.

## **2. MODERNIZING SOCIAL SECURITY:**

While talk of Social Security reform typically focuses on the program's long-term financing gap, many policy experts also support targeted benefit changes to help economically vulnerable groups. Such changes are aimed at modernizing the system to account for evolving social, economic and demographic circumstances such as the rising labor force participation of women, the decline in marriage rates, longer life spans and sluggish wage growth. These trends have undermined the support that Social Security offers for caregivers, widows, the "oldest old" and very low earners. The most discussed changes would: 1) provide credits for those who care for children; 2) improve support for widows; 3) ensure adequate income for retirees at advanced ages; and 4) offer a meaningful benefit to very low earners. Several of these improvements have been proposed by bipartisan commissions, suggesting widespread support. This brief provides an overview of the four areas ripe for change; each one will be covered in-depth in separate briefs. The discussion proceeds as follows. The first section explains the basics of Social Security benefits. The second section describes the program's current long-term financial status. The third section introduces proposals for targeted benefit changes. The fourth section addresses the cost of these changes and the need to adjust other benefits to offset the costs. The final section concludes that targeted changes could clearly help vulnerable groups but – given fiscal pressures – it is important to understand fully the nature of the problems, consider alternative ways to address them and identify offsets to ensure that any changes are cost neutral. Alicia H. Munnell and Andrew D. Eschtruth, Center for

### **3. CLOSING THE BOOKS:**

The Holy Grail for government transparency is making it easy and simple for citizens to know what their government is doing and how it arrives at its decisions. We have always believed this can be achieved, in part, by providing access to public records. Of course, transparency is not open ended. Every state has statutes clarifying what information must be made public and what information should be kept sealed. However, in recent years there has been a steady chipping away at the public's right to know. "This is a trend," says Barbara Petersen, president of the First Amendment Foundation, a Florida nonprofit that advocates for the public's right to oversee its government. "It is not just coming through legislation, but also through the agencies." In Kentucky, for instance, the attorney general's office decided two years ago that government information transmitted through personally owned devices is immune from public scrutiny. In other words, if two council members sent emails back and forth using their own cellphones, the public would have no right to see those emails, no matter how much impact the conversation in them might have on a council decision. "If discussion about a dispute was conducted on these private devices," says Amye Bensenhaver, director of the Bluegrass Institute's Center for Open Government, "then when it came to the public meeting, everything could have already been worked out." Even Florida, long known for its open public records law, has begun pulling back. The last time a systematic count was taken, the state had allowed for over 1,100 exemptions in which information could be concealed from the press and public. Moreso, although the state's law is expansive, there is no straightforward way to make sure it is implemented. "We are really stuck," says Petersen. "We have got this great law, but no means to enforce it other than through the courts." Another burgeoning threat to the utility of public records laws is the exemption of legislative documents, a step such states as Iowa, Massachusetts and Oklahoma have taken. The state of Washington came close to enacting just such a bill, but the governor vetoed it and no attempt was made to override the veto thanks to a loud and effective outcry from the press. There is another hitch to openness. Many records that would ordinarily be made public escape examination when the organization that maintains them is not a direct part of government. That is, the records have been transferred to a nonprofit or for-profit organization, both of which may not have to comply with freedom of information laws. "This is an issue that every city and

state should be aware of in their procurement,” says Alex Howard, deputy director of the Sunlight Foundation, which advocates for transparency. “They should make sure the public’s right to know is not being lost.” These disclosure issues can wind up in the courts, where opinions have varied across the states, according to Adam Marshall, an attorney at the Reporters Committee for Freedom of the Press. Some of the factors the courts might take into account include how much funding the entity receives from the city or state, the functions it performs and the degree to which the government controls what the private entity does. Another barrier to access exists when a state or locality charges high fees for providing information. For example, in Florida, Charlotte County approved 1-6<sup>th</sup> the number of requests for information that Polk County did, yet it collected three times the amount of money, according to the University of Florida and the First Amendment Foundation. The reason: Charlotte charged \$50 for every request, no matter how small; Polk, \$10 per request. Clearly, in the best of all worlds, when a citizen is turned down on a request for public information, he should be able to seek out people who can help. But states and localities do not always publish their public record stewards’ names. According to a Florida audit, “there is a substantial absence of so-called public report custodians in the state.” The audit found that 10 percent of the agencies it surveyed did not have a designated public records custodian; 10 percent did not have the custodian contact information on their website; and 1 in 5 said the information was online, but independent auditors could not find it. Technology is becoming a means to effective gathering and analysis of data that can be used to guide management efforts. So, it is ironic and counterproductive that it is increasingly difficult for the public to get to the actual data. “This is becoming a bigger problem,” says Daniel Bevarly, executive director of the National Freedom of Information Coalition. “The public sector is lagging behind the preferences of the people they represent.” Katherine Barrett and Richard Greene, writing in *Governing*.

#### **4. HOW RACIAL EQUITY MAKES CITIES BETTER:**

Writing in *Governing*, Mark Funkhouser writes that race is central to the governance of most American cities. Not just because so many policies and practices continue to have a disproportionately negative impact on communities of color, but because those practices also reduce cities’ ability effectively to manage the major challenges they face, such as affordable housing, crime and public health. And while the assertion made is grounded in

verifiable fact, it is largely invisible to most white people, including most white civic leaders. But the centrality of race is not invisible to Mitch Landrieu, the former mayor of New Orleans. In his new book, *In the Shadow of Statues: A White Southerner Confronts History*, Landrieu describes growing up in a very progressive political family. His father, Moon Landrieu, was mayor in the 1970s and was a huge force in integrating New Orleans. Still, Mitch did not understand the impact of the city's Confederate statues on its black population. That is until he met with Wynton Marsalis, the African-American musician and composer who is a New Orleans native. Landrieu wanted his help in planning the city's tricentennial. Marsalis agreed, but asked for something in return: removal of the city's Robert E. Lee statue. Why, Landrieu asked, was that so important? "Let me help you see it through my eyes," Marsalis replied. "Who is he? What does he represent? And in that most prominent space in the city of New Orleans, does that space reflect who we were, who we want to be or who we are?" Landrieu writes that he felt "blindsided" and wanted to find a way to tell Marsalis why he could not do what he was asking. In the end, of course, Landrieu did take down the statues of Lee and other prominent Confederates. There is a way to ensure that the impact of race on cities is made visible and addressed. It is embedded in the Equipt to Innovate framework developed jointly by the research team at Governing and the nonprofit Living Cities. The framework, which is used to assess cities on their capacity to grow and innovate, is anchored in seven key characteristics of high-performance government. But what makes it unique in its usefulness is having at its center a racial equity lens. We recently released the second annual Equipt to Innovate report, which you can find at [governing.com/equipt](http://governing.com/equipt). Identifying and addressing issues of race bodes well in terms of longterm outcomes. A recent Brookings Institution report analyzing data from the country's 100 largest metropolitan areas found that the relationship between prosperity and inclusion "grows larger and stronger with time." To me, this only makes sense. In a globally competitive world, the morally right thing to do—working to create a more inclusive city—is also the economically smart thing to do.

##### **5. A TEMPLATE FOR FIXING AMERICA'S PUBLIC PENSIONS:**

Bloomberg News's Amanda Albright writes that Kentucky, home to arguably the most famous annual horse race on the planet, has produced a lot of remarkable turnaround stories over the years. In May 2009, when the world was mired in a recession, a little-known contender called Mine That Bird had 50-1 odds to win the Kentucky Derby. In a

competition that has earned its reputation as “the greatest two minutes in sports,” the horse weaved past 18 other thoroughbreds to cross the finish line first. A lesser-known dark-horse tale happened a couple of years later about 80 miles east of the derby grounds, still in Kentucky’s equine country. Instead of a race, however, the odds were on whether Lexington’s newly elected mayor would be able to bring the city’s mismanaged pension system back from the brink of a crisis. There was no such thing as a sure bet in this case. And yet the pension reforms that Mayor Jim Gray, a former construction company chief executive officer elected in 2010, has been able to achieve might serve as an example to other U.S. municipalities whose retirement systems are in deep debt. The Federal Reserve estimates that public pensions in the U.S. are underfunded by about \$1.6 trillion. Over the past several years, pensions have been battered by a stock market crash, a recession and a wave of workers reaching retirement age. In 2012, Lexington, which uses a joint city-county government system, had a \$296 million unfunded liability to its police and firefighter pension plan. An unfunded liability refers to the difference between how much money a pension system needs to meet its obligations versus how much cash it has on hand and what its invested assets may earn in the future. For more than a decade the city repeatedly borrowed money to pay into the retirement system, [a risky practice](#) akin to using a credit card to pay off debts. The city had sold about \$137 million in bonds between 2009 and 2012 for this purpose, financial documents show. Gray, a 64-year-old who was elected the city’s first openly gay mayor, shook things up in a lot of ways. Some were as minor as introducing an open-floor office plan at City Hall. Others were more far-reaching. In his first year the Democrat formed a task force of representatives from the city administration, police and fire unions, and members of the pension board. The city also hired the Philadelphia-based financial advisory company Public Financial Management Inc. as a consultant. The deliberations between these parties resulted in a set of reforms that required shared sacrifice by both the city and the pension recipients—not an easy accomplishment. In addition, the city is now legally required to pay off its unfunded liability by 2043. This was not the first time a local government had set its sights on fixing a beleaguered pension system. Lots of other municipalities have tried and failed. Illinois, which has the worst credit rating of any U.S. state, still owes an estimated \$129 billion to its pension, and New Jersey is on the hook for about \$115 billion in unfunded pension costs, according to its most recent estimate. Lexington is one of the best examples of reforms actually working. The reason public

pensions got into this mess is because a lot of what could go wrong did go wrong. Lawmakers in many cases failed to set aside enough money for retirement systems, leaving plans underfunded. The recession caused public pension assets to decline by roughly \$1 trillion from the second quarter of 2007 to the same time the following year, the Congressional Budget Office reported in 2008. Some plans have seen investments falter because of bad bets. In other cases, governments increased benefits to retirees without increasing funding. All the while, retirees are living longer, and government payrolls are starting to shrink. That leaves fewer public employees contributing to retirement plans for every retiree receiving benefits. In 2011, Lexington reached a crisis point after the city had underfunded the police and fire pension for years even as it increased employee benefits. The city faced an \$18 million budget deficit and was close to its self-imposed limit on how much more it could borrow to make pension payments. As the costs of maintaining the pension system grew to more than a fifth of the government's general-purpose spending fund, other city services were taking a hit, too. "All the numbers were draconian," Gray says. Members of the mayor's pension task force set up shop on the 12th floor of the local government building, sometimes working late into the night or bringing their kids along to meetings. After months of negotiating among members of the task force, the group came to a compromise that would require an additional \$9 million contribution each year from the city, increased payments into the plan from current employees, and the creation of a minimum retirement age of 41 for active workers. It also enacted new limits on employees' cost-of-living adjustments, which are changes in retirement benefits to account for inflation. More noteworthy, the city cut cost-of-living adjustments for current retirees—a move almost unheard of in the public pension realm. Some states have protections for pensioners embedded in their constitutions. In 2015 the Illinois Supreme Court struck down a 2013 pension overhaul, saying it violated the state constitution's ban on reducing retirement benefits. But in Lexington, police, firefighters, and retirees actually approved the plan by a 76 percent vote. Unions and employees were given a voice, and that made a huge difference, says Captain Chris Bartley, president of the local firefighters' union and a member of the task force. "We had a seat at the table, unlike most people," he says. "That is why the plan works. There is sacrifice by all but to the benefit of the community, taxpayers, and police and firefighters." The police and fire pension was more than 77 percent funded as of July 2017, 11 percentage points higher than it was when Gray took office in 2011, according to the pension's latest actuarial report. The political pressures to

keep pensions intact are high: Governments often use the promise of a generous retirement as a way to recruit employees who could likely make more money in the private sector. “When you talk about issues like pensions, to employees they are not math problems,” says Vijay Kapoor, who was a consultant at PFM, the company Lexington hired to help with reforms. “They really go to the heart of people’s financial security.” At the time, there was no template for how Lexington might approach the overhaul, Kapoor says. He says he focused on acting as a referee between employee groups and local officials. “Cops and firefighters are very solution-focused,” he says. “If you talk to a cop or firefighter, they say, ‘I have to put the fires out’ or ‘I have to save the person.’ They do not have time to be, like, ‘On the one hand’ or ‘On the other hand.’ Put them in a room and say, ‘We have got a problem we’ve got to solve it together.’” Kapoor now runs his own consulting company in Asheville, N.C., and after his stint in Lexington, he is since worked on pension reforms in Chattanooga and New Orleans using a similar approach. It was not always a “kumbaya” effort, he says, but groups working on pension reform ultimately came to an agreement. In Chattanooga the police and fire pension was about half funded in 2013, after having been almost fully funded in 2000. The city came to an agreement with employees in 2014 that would require certain police officers and firefighters to contribute more of their pay into their retirement system and enacted new restrictions on cost-of-living adjustments. Chattanooga Mayor Andy Berke, who started working on pension reform during his first year in office in 2013, has developed a wry sense of humor about the painful process: “I definitely want to do that again—that was really an enjoyable experience.” Berke says there were uncomfortable weeks when he could not go to the grocery store without someone approaching him to ask why he was trying to hurt firefighters and police officers. “I promise you that did not feel very good,” he says. But by the time an agreement was reached, people would congratulate him for taking a stand for the city, he says. Chattanooga also lowered the return assumptions for the pension plan’s invested assets, which Berke says will help make meeting its funding targets more realistic. It also means the pension’s funding status, which incorporates expectations for future returns, has not budged much in recent years: It was 57 percent in 2017. The pension does not have a target year for fully funding the plan yet, but the city is focused on getting the plan on the right track, says Katrina Abbott, fund administrator for the Chattanooga Fire & Police Pension Fund. Some states have made an effort to rein in pension costs. Rhode Island lawmakers passed the Rhode Island Retirement Security Act

of 2011, which increased the retirement age and suspended cost-of-living adjustments. State Treasurer Seth Magaziner says the reforms are saving the state and cities about \$300 million per year, and he estimates that Rhode Island will be fully funding the pension by 2036. “The challenges facing public pensions systems in America did not arise overnight, and they’re not going to be fixed overnight,” he says. “The longer they wait to do something, the more painful it is going to be.” Other states have not seen overhauls to pensions pay off at all. Former New Jersey Governor Chris Christie oversaw several reforms to the state pension but failed to contribute the amount recommended by actuaries examining the retirement systems. New Jersey still ranks as one of the worst-funded systems in the country. Alaska, Illinois and other states whose constitutions protect pension benefits may have the hardest time digging themselves out of a debt hole, says Flick Forna, president of Pension Trustee Advisors Inc., a consulting company in Greenwood Village, Colo., that has worked with retirement plans, governments, and labor groups. Most state pensions are protected by contracts, though the extent to which they are protected differs, according to the Center for Retirement Research at Boston College. “If you have not paid for something, it is hard to fix it by promising less in the future if you have not paid for the past,” Forna says. Cities and states that do attempt reforms need to show there is shared sacrifice among all stakeholders involved or else it will not work, he says. Politicians who make tough decisions—especially on touchy matters such as retirement benefits—rarely get rewarded. Lexington Mayor Gray is happy to be an exception. He says he has not been punished for the changes he has enacted in his city. One day, when he was going through airport security, he says, a retired firefighter thanked him for fixing the pension. Gray says it is a reaction he gets a lot now. Voters gave Gray the OK on the changes, too, reelecting him as mayor in 2014, for his final term. This year he was looking to run for Congress, saying pension reform prepared him for prickly federal issues including Social Security reform and the opioid crisis. Gray lost the Democratic primary. Still, that does not take away what Lexington was able to achieve. “It was thorny and turbulent, and there was no clear road map for it,” he says. “We really created and blazed that trail, but it was done with a lot of talented people. There was no ‘me’ in this.”

## **6. PUBLIC FINANCE; GOVERNMENTS HAVE NOT HAD RULES FOR REVEALING THEIR PRIVATE DEBT – UNTIL NOW:**

A new rule is going into effect next month that many believe will shed light on a

controversial spending area for state and local governments: how much they owe banks for private loans. The rule, issued by the Governmental Accounting Standards Board (GASB), lays out standards for reporting these loans in government financial reports. Unlike public debt -- which is issued through the municipal bond market and subject to regular disclosure requirements -- disclosures about direct loans from banks are not regulated. So, up until now, governments revealed as much -- or as little -- as they wanted about their private debt. The lack of continuity has been a source of growing frustration, particularly as governments' private debt rolls have ballooned. Since 2009, banks have more than doubled their municipal holdings to \$536 billion in securities and loans. Governments like the loans from banks because they come with lower costs and can be more convenient than going through the cumbersome public debt process. But observers worry that the terms of these loans are not transparent enough, obscuring an important part of a government's financial health. The new rule requires governments to include in their annual reports a statement called GASB 88, which will include not just the amount of money borrowed directly from banks but any unused lines of credit, any public assets pledged as collateral and any terms laid out in the lending agreement that could trigger early payment or financial penalties. The rule goes into effect for government fiscal years that start after June 15, 2018, meaning most governments will begin including the information in their fiscal 2019 annual reports. It could apply -- by one estimate -- to as much as \$50 billion to \$60 billion in bank deals a year. That is significant considering that last year \$448 billion in total debt was issued publicly in the municipal bond market. Bank loans have been a point of contention, particularly with bondholders and ratings agencies, because some contain language that, in the event of a bankruptcy or default, makes private debt a priority for paying back over public debt. Moreover, the terms are so broad in some cases that the bank can recall the loan more easily. A Stanford University study of these types of loans in California concluded that more than half of the municipalities there that have borrowed from banks have put themselves at "financial risk" thanks to stringent terms in the loan. That, the paper concluded, makes direct loans riskier than bonds. A credit rating downgrade could trigger a financial penalty or even a requirement from the bank immediately to pay off the remainder of the loan -- and ironically, such an event could strain finances so much that it could put a government at further risk for a downgrade. For example, in 2015, a downgrade by Moody's Investors Services on Chicago triggered a \$58 million penalty for the already fiscally beleaguered city. (The city

ended up negotiating a new deal to avoid the full penalty.) The rule is supported by many industry trade groups, such as the Government Finance Officers Association (GFOA) and the National Federation of Municipal Analysts, as well as regulators like the Municipal Securities Rulemaking Board. The change for governments, says Michele Mark Levine, GFOA's technical services director, should not be too onerous because most places have been reporting some part of their bank deal information in some fashion. However, she warns, a federal proposal regarding bank loan disclosures could be far more cumbersome. Last year, the Securities and Exchange Commission proposed a rule that, among other things, would require governments to disclose direct loans from banks within 10 days of closing. The proposal has yet to move forward. Liz Farmer, writing in *Governing*.

## **7. TIPS FOR TEENAGE TAXPAYERS STARTING A SUMMER JOB:**

Now that school is out, many students will be starting summer jobs...from working at a summer camp to being an office intern. The IRS reminds students that not all the money they earn may make it to their pocket. That is because employers must withhold taxes from the employee's paycheck. Here are a few things these workers need to know when starting a summer job:

- **New employees.** Students and teenage employees normally have taxes withheld from their paychecks by the employer. When a taxpayer gets a new job, he needs to fill out a [Form W-4](#). Employers use this form to calculate how much federal income tax to withhold from the employee's pay. The [Withholding Calculator](#) on IRS.gov can help a taxpayer fill out this form.
- **Self-employment.** Students who do odd jobs over the summer to make extra cash – like baby-sitting or lawn care – are considered [self-employed](#). They should remember that money earned from self-employment is taxable. Workers who are self-employed may be responsible for paying taxes directly to the IRS. One way to do that is by making [estimated tax](#) payments during the year. Taxpayers who do this should keep good records of all money they receive.
- **Tip income.** Someone working as a waiter or a camp counselor who receives tips as part of their summer income should know that [tip income](#) is taxable income and subject to federal income tax. They should keep a daily log to accurately report them, as they will report tips of \$20 or more received in cash in any single month.

- **Payroll taxes.** This tax pays for benefits under the Social Security system. While taxpayers may earn too little from their summer job to owe income tax, employers usually must still withhold [Social Security and Medicare taxes](#) from their pay. If a taxpayer is self-employed, then Social Security and Medicare taxes may still be due and are generally paid by the taxpayer.
- **Reserve Officers' Training Corps pay.** If a taxpayer is in an ROTC program, active duty pay, such as pay for summer advanced camp, is taxable. Other allowances the taxpayer may receive – like food and lodging allowances paid to ROTC students participating in advanced training - may not be taxable. The [Armed Forces' Tax Guide](#) on IRS.gov has more details.

IRS Tax Tip 2018-82, May 29, 2018

#### **8. IRS REMINDS EXTENSION FILERS OF OCTOBER 15 DEADLINE:**

The IRS reminds taxpayers who requested an extra six months to file their 2017 tax return that Monday, October 15, 2018, is the extension deadline for most taxpayers. For taxpayers who have not yet filed, here are a few tips to keep in mind about the extension deadline and taxes:

- **Try IRS Free File or e-file.** Taxpayers can still [e-file](#) returns for free using [IRS Free File](#). The program is available only on IRS.gov. Filing electronically is the easiest, safest and most accurate way to file taxes.
- **Use Direct Deposit.** For taxpayers getting a refund, the fastest way to get it is to combine [direct deposit](#) and e-file.
- **Use IRS online payment options.** Taxpayers who owe taxes should consider using IRS [Direct Pay](#). It is a simple, quick and free way to pay from a checking or savings account. There are other [online payment options](#).
- **Do not overlook tax benefits.** Taxpayers should be sure to claim all entitled tax [credits and deductions](#). These may include income and savings credits and education credits.
- **Keep a copy of return.** Taxpayers should keep copies of tax returns and all supporting documents for at least three years. This will help when adjusting withholding, making estimated tax payments and filing next year's return.
- **File by October 15.** File on time to avoid a potential late filing penalty.

- **More time for the military.** Military members and those serving in a combat zone generally [get more time to file](#). Military members typically have until at least 180 days after leaving a combat zone to both file returns and pay any tax due.

IRS Tax Tip 2018-84, May 31, 2018

## **9. AS CITIES AND STATES PASS BOLD INCREASES IN THE MINIMUM WAGE, WE NEED TO UPDATE OUR THINKING ABOUT ITS COSTS:**

The last few years has seen a major shift in minimum wage policies as states like California and New York and cities like Seattle and Washington, DC, have passed laws phasing in a [\\$15 minimum wage](#), targeting bolder increases than had been the pattern over the last two decades. Federal proposals such as the [Raise the Wage Act of 2017](#), which would bring the minimum wage to \$15 by 2024, are consistent with these bolder local approaches. This is bold, as it mandates a 71.9 percent real increase in the minimum wage. But even this bold increase only brings the minimum wage to 29 percent above its 1968 purchasing power, despite productivity nearly doubling over the same timeframe. Many policymakers have concluded, in effect, that years of modest or no change in the minimum wage have created a situation where bold increases are required just to move the minimum wage closer to being a living wage. This shift in policy now necessitates a rethinking of the flawed way we have evaluated minimum wage increases over the last few decades. There have been, in particular, two flaws. One was first highlighted by economists Fiedler, Howell and Luce, who noted that public discussion of various minimum wage proposals, including among economists, tends to center solely on whether there will be any job loss. In effect, minimum wage proposals are being evaluated according to a “no job loss” criterion, which specifies that the “right” wage floor is the one that previous research has demonstrated will pose little or no risk of future job loss, anywhere.” A no job loss criterion implies that if a minimum wage increase has any costs (whether loss of employment or work hours), regardless of benefits, then it is inappropriate. The second flaw in our evaluations is that “job loss” mischaracterizes the actual dynamics of the low-wage labor market, and embeds the discussion in an Econ 101 world where there are only two employment situations after a minimum wage increase: people who continue to work and those who never see work again. In fact, as discussed below, if there is a reduction in overall hours worked it will likely take the form of many people affected working fewer hours over a year’s time while earning much higher annual

wages. So, review these flaws in greater detail. First is our argument that critics who cite claims of job loss to reject bolder minimum wage increases are using a distorted evaluation framework, focusing only on the potential costs of raising the minimum wage and ignoring the benefits of raising low-wage workers' total earnings. This framing is distinctly different from the way we evaluate every other type of economic policy, and biases the public against the bold approach that would help low-wage workers out of the deep hole they are in after decades of inadequate increases in the minimum wage. We can illustrate the problem using the Congressional Budget Office analysis of the effect of a 2013 proposal to raise the [federal minimum wage to \\$10.10 by 2016](#). Media coverage of the study highlighted CBO's estimate of 500,000 jobs lost. Even if that estimate were correct—and there are many reasons to doubt that much job loss from such a modest increase—this implicit “no job loss” criterion distorts the outcome of the policy. CBO's results, in fact, showed that 17.0 million workers would be directly affected and 97.1 percent of these workers would be clear winners (remaining employed and earning 14.5 percent higher wages). In contrast, the 500,000 jobs lost implies that 2.9 percent of the affected workforce would lose out. The average affected worker would enjoy an 11.6 percent increase in annual earnings. This more complete description of the findings shows that the benefits of the policy far outweigh the estimated costs. The second flaw is that characterizing the costs as 500,000 jobs lost mischaracterizes the outcomes because it assumes a world with only two outcomes: either a worker maintains employment or loses the ability to find a job. This ignores the high degree of churn in the low-wage labor market over the course of a year, giving the misleading impression that a given pool of workers would lose their jobs and have no earnings over an entire year. We provide evidence that the low-wage labor market already exhibits a high degree of churn—workers constantly move in and out of employment. This implies that low-wage workers who experience employment reductions are actually experiencing reduced total annual hours of work, through fewer weeks worked and longer spells in between jobs, rather than a job loss that lasts the whole year. The more churn there is in the low-wage labor market, the more widely the job losses will be spread among workers in the form of lost hours, and thus the more likely that workers will come out ahead—working fewer annual hours at a higher hourly wage, and thus earning more over the course of a year. Thus, the share of workers with lower annual earnings will be far less than even the 2.9 percent found in CBO's analysis of “jobs lost.” As we move forward to assess the many local and state initiatives

with bold minimum wage increases we must shift from an evaluation framework that only considers costs and ignores benefits. We must also move away from the Econ 101, point-in-time labor market description, which has only those employed and those excluded from work. In fact, over the course of a year the low-wage labor market has a high churn among both employees and employers. Consequently, the best approach to examining the outcomes of minimum wage increases is to examine the number of workers with higher or lower annual earnings, allowing for possible outcomes such as working fewer annual hours but earning greater annual earnings. New bold policies requires us to update our thinking. *Working Economics Blog*.

#### **10. 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.

#### **11: LEXOPHILES:**

We will never run out of math teachers, because they always multiply.

#### **12. INSPIRATIONAL QUOTES:**

Start by doing what is necessary; then do what is possible; and suddenly you are doing the impossible. - Francis of Assisi

#### **13. TODAY IN HISTORY:**

- On this day in 1989, Supreme Court rules okay to burn US flag as a political expression.
- On this day in 1990, US House of Representatives votes 254-177 to stop US flag burning, does not pass.

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