



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

1. CHICAGO POLICE DEPARTMENT CONSENT DECREE:

The Illinois Attorney General's Office and the City of Chicago (City) have reached agreement on a draft consent decree to reform the Chicago Police Department (CPD). The consent decree calls for substantial and wide-reaching reform of CPD's policies,

practices, training and accountability mechanisms to address use of force, police accountability and discriminatory policing; improve public and officer safety; and build trust between CPD and Chicago's residents. Key provisions include:

Use of Force and Force Reporting

- Enhances CPD's de-escalation tactics.
- Requires officers to provide life-saving aid.
- Requires tracking and analyzing all foot pursuits and, if recommended by the independent monitors, adopting a new foot pursuit policy.
- Further restricts officers from shooting at moving vehicles.
- Requires CPD to adopt a policy prohibiting the use of Tasers for flight alone and strongly discourages the use of Tasers in schools and on students.
- Requires monthly publication of use of force data.

Community Policing and Impartial Policing

- Integrates community policing principles in all CPD operations.
- Requires structure and oversight for CPD officers in Chicago schools.
- Improves CPD interactions with diverse communities.
- Ensures access for individuals with disabilities.
- Requires CPD to incorporate community input into key CPD operations.

Accountability and Transparency

- Improves transparency at all stages of misconduct investigations. Requires that every complaint to the City and the Civilian Office of Police Accountability (COPA) receive a unique tracking number that will be linked with all stages of the process. By 2020, allows members of the public to track the status of complaints on-line.
- Requires COPA and CPD's Bureau of Internal Affairs (BIA) to complete investigations within 180 days, and the districts to complete investigations within 90 days.
- Requires the City to ensure adequate staffing levels and training for COPA and CPD internal investigators.

- Addresses the code of silence and officer collusion.
- Improves independence and transparency of gender-based misconduct investigations, including requiring automatic investigations of officer-involved domestic violence allegations and extensive review and public reporting on each investigation of officer-involved sexual misconduct and assault.
- Requires CPD and the City to use their best efforts to renegotiate collective bargaining provisions, including the prohibition on anonymous complaint investigations and revealing complainant identities prior to administrative interviews.
- Establishes transparency into misconduct investigations and CPD-related lawsuits by requiring on-going and annual publication of data.

Recruitment, Hiring and Promotion

- Improves recruitment and hiring diversity efforts.
- Assesses fairness and transparency in supervisor promotions.

Training and Supervision

- Improves training for probationary officers in the Field Training Program.
- Requires 40 hours of annual, in-service training.
- Expands supervisor training by requiring supervisors to have ongoing, in-service training on topics including managerial and leadership skills.
- Lowers the number of officers per supervisor to one sergeant for every 10 officers and ensures that officers have one consistent supervisor.

Officer Wellness

- Improves efforts to destigmatize officer wellness programs.
- Develops and implements a comprehensive suicide prevention initiative.
- Increases CPD's licensed mental health professional staff from three to at least 10.

Crisis Intervention

- Enhances training requirements by requiring CPD to begin providing at least eight hours of ongoing training every three years.
- Requires CPD to document and track all service calls involving individuals in crisis, and adopt a demand-driven model for staffing crisis intervention-certified officers.
- Requires crisis intervention training for all CPD officers.

Data Management

- Requires CPD to create and implement an electronic case management system by 2020.

Independent Monitor

- Requires evaluation by an independent monitor who will publicly report on consent decree progress and assist the federal judge overseeing the case with enforcement.
- A Request for Proposals (RFP) was issued on July 27, 2018. Responses were due September 4, 2018. A public forum will also be held with independent monitor finalists.
- The Attorney General's Office and the City will consider all information gathered during the monitor selection and make recommendations to the federal judge overseeing the case for consideration and approval.

Implementation, Enforcement and Monitoring

- Filed in federal court, the consent decree will operate as a federal court order once approved by a judge.
- Terminates only when the City and CPD have demonstrated full and effective compliance.

2. YOUR DB STATUS HAS IMPROVED? NOW WHAT?:

A piece by Rebecca Moore says Northern Trust Asset Management (NTAM) believes it is critical for corporate defined benefit (DB) plan sponsors to understand the impact the DB

plan has on overall corporate financials, and it ties this in to pension investment strategy in an new report, "Corporate Pensions: The Bottom Line." According to the report, during 2017, corporate DB plans experienced their greatest improvement in funded status in the last five years--improving from 81% to 85%--the largest one-year increase since 2012 to 2013. While the equity markets were a significant contributor to that growth, another significant contributor came from [corporate cash contributions](#). During 2017, corporations in the S&P 500 contributed \$77 billion in cash to their DB plans. NTAM says that is a material capital allocation to what is essentially a debt obligation for many plan sponsors and a tie-up of capital that cannot be used for corporate growth or distributed to shareholders. However, a key benefit to these large contribution is the effect on corporations' income statement--the pension expense recorded on corporate income statements has fallen to its lowest levels since the financial crisis. In 2017, the average pension expense was just 3.4% of total operating income--a significant drop from 5.2% in the prior year. As corporations are allocating more capital to their DB plans, they are better able to manage their pension costs and improve the funded health of their plans. And, they are looking hard at their investment strategy to try to preserve improved funding and seeking ways to reduce the outstanding deficit of their plans. NTAM says the trend toward [liability-driven investing](#) (LDI) has continued. Ten years ago, the average fixed income allocation for S&P 500 DB plans was 31%. In 2017, it was 43%--a 2% rise from the prior year. Equities, which were at 60% ten years ago, have fallen to 37% in 2017. With LDI, the investment strategy changes as funded status improves, but NTAM finds there is often a one-year lag, as it likely takes some time for investment committees to enact changes to their asset allocation strategy. For example, in 2010, the funded status improved from 81% to 83%, but it took until the following year for fixed income allocations to increase from 36% to 40%. However, with plans that use automated de-risking glidepaths, the allocation change happens sooner. In 2017, funded status improved from 81% to 85%, and in the same time period, fixed income allocations increased from 41% to 43%. Moving from equities to fixed income allows DB plan sponsors to preserve the funded status they have achieved due to market returns and capital allocations, but investment committees are looking for new [asset classes that can provide greater returns at a reasonable level of risk](#). NTAM says it believes DB plan sponsors should get compensated for the risks they take, and offers four considerations for setting DB plan investment strategy:

- Understand the true risks in the portfolio. Scrutinizing the asset allocation through the lens of the underlying risk factors often reveals unintended or oversized exposures. By understanding the portfolio's exposure to certain market dynamics like inflation, economic growth, currency or other macro factors, plan sponsors can ensure their capital is deployed in line with a rational market view.
- Focus on intended and compensated plays. Even a passively implemented portfolio will have bets, be that high degrees of concentration to particular sectors or securities or a bias toward momentum. Once a plan sponsors understands its bets, it wants to position its DB plan portfolio towards those bets it believes will be compensated and in line with a long-term strategy.
- Choose liability hedging instruments wisely. Choosing the right strategy and adjusting that strategy is critical to managing pension risk, NTAM says. Use of an active manager to manage long credit exposure can reduce the downside risk associated with material credit events that cannot be achieved through a passive index investment. However, a passive investment for long government allocations could be a more cost-effective instrument--it can provide very low cost duration and an effective tail-risk hedge to the portfolio. As a plan becomes better funded, the plan sponsor may want to consider increasing the precision of the hedge through [overlay](#) or completion strategies.
- Be dynamic and nimble. Markets are dynamic and they will change, and NTAM says successful institutional investors need to do the same. With a strong understanding of a long-term goal coupled with an appreciation of the underlying risks and drivers of a portfolio, a plan sponsors is better positioned to be dynamic when markets provide opportunities. NTAM says this may come in the form of an active rebalancing policy which allows plan sponsors to buy on the dips and sell into strength, or it could take the form of a de-risking glidepath which allows for buying into bond weakness as rates go up. NTAM says [derivatives](#) can also be effective tools to help manage a flexible strategy.

3. TAX REFORM, OTHER FACTORS LEADING DB PLANS TO INCREASE FUNDING:

Lee Barney writes that the Tax Cuts and Jobs Act is prompting many defined benefit (DB) plans to accelerate their contributions, since they can deduct these contributions at 35%

until mid-September, CFO Research and Prudential found in an online survey of 127 financial executives whose companies have a DB plan. After that, the new tax rate of 21% kicks in, and it will not be as advantageous for the plans to deduct contributions at this lower rate. “We are seeing a number of companies accelerating pension contributions, driven in part by changes in the tax law,” says Rohit Mathur, head of global product and market solutions in Prudential’s pension risk transfer business. “We are also noticing an increasing interest in pension risk transfers among plan sponsors.” While the new, lower tax rate will reduce tax deductions for pension contributions, it will also boost companies’ profits, and benefit them with more money that they can contribute to their DB plans. In fact, 64% of respondents say they are likely to use the savings to increase funding to their DB plan. The new tax law also includes a provision allowing U.S.-based multinational corporations to [repatriate earnings](#) at lower tax rates than the 35% they would have paid in the past. Companies can take advantage of a one-time repatriation of cash at the rate of 15.5% and 8% for non-liquid assets. Twenty-four percent of respondents say they will take advantage of this provision. The survey also found that 29% of the finance executives plan to use the excess funds from the law to minimize liability risk through such efforts as boosting retiree health care funding. Seventy percent of the executives say that the recent changes in the mortality tables are creating longevity risk for their organizations. Nearly two-thirds (62%) say they are “very likely” to transfer some or all of their pension obligations to an insurance company once their DB plan becomes well-funded.

4. SIMPLER RETIREMENT PLAN COMMUNICATIONS MAKE NO DIFFERENCE IN EMPLOYEE DECISIONS:

Because 45% of U.S. households with heads between the ages of 25 and 64 have insufficient retirement savings, and for working households about to retire, the median savings is a mere \$12,000, according to Lee Barney. IZA Institute of Labor Economics conducted a study to find out how to encourage better savings behaviors. Specifically, the “Less Is Not More” study set out to determine whether presenting retirement plan information in a more compact and accessible way increases participation and results in better investment decisions. IZA conducted a study among newly hired employees by giving them either a short form or a long form description about a hypothetical employer-sponsored 401(k) plan. The participants were then asked a series of questions about their planned choices: whether or not they would enroll in the plan, how much they would

contribute and how they would allocate their funds. IZA found no difference between those given the short and those given the long forms. IZA then conducted a second study among business school students, who were expected to have less familiarity with a 401(k) plan, and found the same results. When enrolling in a retirement plan is optional, IZA says, the factors that determine whether or not a worker will do so depend on their age, education level, job tenure, income, financial knowledge, plan features, peer effects and planning horizon. Automatic enrollment has been very effective, IZA says. Using data from Fortune 500 companies, auto enrollment increases participation by 85%. By comparison, another study found that educating new hires about the potential for future earnings by participating in a 401(k) plan increased enrollment by a single percentage point. When a company match is offered, the likelihood of enrollment is 25% higher than when no match is offered. When the participation rate of colleagues increases by one percentage point, other workers' enrollment increases by two percentage points. As people age, are better educated, have financial knowledge or work longer at a job, they are more likely to participate in a 401(k) plan, IZA says. In addition, people with a planning horizon of less than five years are less likely to participate than those with a planning horizon of five years or more. When automatically enrolled, the majority of participants stick with the default deferral rate. One study found that 61% of participants do so. Another study found that by asking people to commit to using pay raises to increase their 401(k) contributions boosted deferral rates from 3.5% to 13.6% by the fourth pay raise. IZA points to another study that found when a plan permits people to take out loans, this increases contribution rates by 2.6 percentage points. Two different studies found that people spent between 36 minutes and one hour to decide how to allocate their money. Framing investment information also impacts decisions. When shown one-year returns on stock funds, people assigned 41% of their portfolio to stocks. When shown 30-year simulated returns, people upped that allocation to 82%. Another study found that 42.5% of males have at least some of their portfolio allocated to stocks, compared to 33.3% of females. In conclusion, IZA says, "the data do not support the idea that presenting optional 401(k) plan information in a simpler, more compact way will improve employees' retirement planning choices. However, we did find that financial literacy was positively associated with better choices. This suggests that increasing financial literacy would improve decision making regarding 401(k) plans. In addition, given that so many people choose the default options, it may be ideal to design those defaults in such a way as to improve individuals' outcomes." IZA's full report can be

downloaded from [here](#).

5. NEARLY A THIRD OF U.S. PENSION PLANS ARE NOW WITHIN STRIKING DISTANCE OF A BUYOUT, SAYS RISKFIRST ANALYSIS:

About 30% of US plans analyzed by fintech company RiskFirst have assets equal to or exceeding 95% of their liabilities on an accounting basis, according to RiskFirst data. Analysis of some 500 plans with assets of over \$100bn highlights that the number of plans within this funding level band – which arguably puts them within reach of a buyout or termination (given the premium required to match current annuity pricing, offset by the increasing costs of plan management) – has increased by 50% in the first half of 2018. Further analysis of the portfolio reveals that this figure increases to 40% in the event of a further 50bps increase in long-term yields, and to a staggering 46% with only a 75bps increase in yields. Michael Carse, DB Pensions Product Manager, RiskFirst, says “The pension plans modelled on our platform – which range in size from smaller plans to those with \$8bn in assets – are relatively typical of US plans as a whole, so these findings can be regarded as being fairly representative of the market. 30% is certainly a sizeable number, and while risk transfer will, of course, only be the right option for some of those plans within striking distance, it would not take much of a change in sentiment to impact the appetite for bulk annuities in the current climate.” With market factors presenting particularly favorable conditions to de-risk – including accounting reforms, a strong performance in equity markets combined with reductions in liabilities, increased PBGC premiums, and the incentive for additional pre-funding in 2018 ahead of upcoming corporation tax changes – there is the potential for risk transfer rates to rise considerably. Matthew Seymour, CEO, RiskFirst, adds: “For plans that are looking to transfer risk, those equipped with the tools regularly and accurately to monitor their funding levels and the broader market situation will be best positioned to capture the opportunities to de-risk as they arise.” RiskFirst, August 2, 2018.

6. MASSMUTUAL WOMEN’S RETIREMENT RISK STUDY:

- To understand better the investment preferences and philosophies of women approaching retirement as well as women retirees, MassMutual commissioned a survey of pre-retirees within 15 years of retirement and of retirees no more than 15

years into retirement.

Methodology

- On behalf of MassMutual, Greenwald & Associates, an independent research firm, conducted an online survey that included 804 pre-retirees and 801 retirees. Respondents were drawn from ResearchNow's online panel. To qualify for the survey, all respondents had to be at least 40 years old.
- Pre-retirees were required to have a household income of at least \$40,000, work full-time for a private sector employer, and be participating in that employer's DC retirement plan.
- Retirees were required to have total investable assets of at least \$100,000. They had to be retired from a private sector employer and participating in that employer's DC retirement plan at the time of retirement.
- This survey also included oversamples of some key sub-groups of the population, including women. Between the main sample and oversample we collected 1,000 interviews from women, including 510 pre-retirees and 490 retirees.

Key Findings: Gender Comparisons

Women face more uncertainty and higher financial concerns. Women are more uncertain and less confident when it comes to financially preparing for retirement. Nearly one-third of men (32%) say they are very knowledgeable about managing their savings and investments; roughly one in seven women (15%) assert the same level of investment knowledge. Additionally, women are less likely than men to accurately project how long their savings will last in retirement. Over two in five women (43%) are unsure of how long their savings will last compared to one-third of men (33%). Notably, this difference is driven by pre-retired women among whom nearly half (46%) are unsure how long their income will last in retirement. The high level of uncertainty among women contributes to a sizable income gap. On average, women anticipate a 5-year gap between their savings projections and years spent in retirement. Comparatively, men are confident, on average, their savings will be sufficient. The increased financial uncertainty among women extends past their savings projections and into more complicated aspects of financial management. Compared to men, women are less confident they know how to optimize Social Security (73% *versus* 66%), generate lifetime income (72% *versus* 60%) and meet

their retirement lifestyle goals (68% *versus* 58%). Women are more concerned than men about market volatility and making poor investment decisions, including concern about a major downturn in the stock market (83% *versus* 73%), stock market volatility in general (78% *versus* 65%), taking too much investment risk (48% *versus* 41%), and making a poor investment decision (58% *versus* 49%). Overall, women express less comfort than men with taking investment risk (71% *versus* 81%). Retired women are especially uncomfortable with investment risk as less than two-thirds (64%) are content with taking on at least some investment risk compared to about three quarters of retired men (72%) and pre-retired women (74%). Increased levels of discomfort with financial risk among women translates into their current investment allocation. Women are more likely than men to describe their current investment mix as a balance of growth and preservation (42% *versus* 32%), while men are more apt to describe their current mix as tilted towards growth (58% *versus* 46%). Risk aversion among women may be misaligned with their long-term goals as nearly two-thirds of women (63%) strongly agree they want their investments to continue growing in retirement; only a little over half of men (54%) say the same. Interestingly, while most advisors tend to encourage more conservative investing in retirement, women with an advisor are more likely than men to report their advisor suggested that they invest more aggressively (25% *versus* 16%).

Gender Comparisons

Compared to men, women are less independent investors. Women are less familiar with certain investment types than men. Men are more familiar than women with actively (85% *versus* 69%) and passively managed (80% *versus* 61%) mutual funds, customized investments (66% *versus* 55%) and target date funds (64% *versus* 49%). While the aim of target dates funds is to streamline investment allocation, women are less likely than men to find them easy to use (57% *versus* 65%). Women are less likely than men to be active in the management of their finances. Compared to two-thirds of men (66%), fewer than half of women (48%) check their investment performance weekly. Moreover, women are more inclined than men to prefer an investment option that let's them "set-it-and-forget-it" (74% *versus* 63%). Pre-retired women (79%) are especially interested in this investment option compared to retired women (62%) and pre-retired men (64%). Women rely on advisors and are open to education and advice. While women may be less familiar than men with investment options and less proactive in financial management, there is evidence in these data that women are open to education and advice. Over three in five women (61%) prefer to delegate financial decisions, less than half of men (45%) share

that preference. Given their preference to delegate financial decisions it's unsurprising that women are more likely than men to be currently working with a professional financial advisor (72% versus 57%). Interestingly, in comparison to retired men (68%) and pre-retired women (68%) a higher share of retired women (79%) are receiving professional financial advice.

7. HERE IS WHEN CONGRESS WILL FIX SOCIAL SECURITY:

According to *The Motley Fool*, there are five words today's seniors and millions of working Americans probably do not want to hear, but it is the truth: Social Security is in trouble. For 78 years, Social Security has been making payments to eligible beneficiaries, and in the process, keeping a number of them above the federal poverty level. An analysis from the Center on Budget and Policy Priorities from 2016 suggests that [22.1 million beneficiaries](#) owe their ability to live above the federal poverty level to their guaranteed Social Security checks. But this program, which so many retirees are currently leaning on or will rely on in the years and decades to come, is just an estimated 16 years from an inflection point, according to the latest Social Security Board of Trustees report released in early June. Beginning in 2018 and continuing with each subsequent year, Social Security will be paying out more in benefits than it generates in revenue. Even though this net cash outflow will start off small (\$1.7 billion in 2018 and \$0.2 billion in 2019), it is expected to accelerate with each passing year, beginning in 2020. By 2027, per the intermediate-cost model, [\\$169 billion](#) more in benefits will flow out of Social Security than is expected to be collected in revenue. Obviously, the program cannot continue running a deficit forever. Since the last major Social Security reform in 1983, it is built up approximately \$2.9 trillion in asset reserves. However, it is expected to take just 16 years completely to exhaust these reserves, such that by 2034, there will be nothing left, assuming no additional revenue is raised or cost-cuts implemented by lawmakers. What does this mean exactly? Well, the silver lining is that Social Security [will not be bankrupt](#), despite whatever myths and misinformation might be out there. The only way Social Security could go bankrupt is if there were no more money flowing into the program. Thankfully, two of its three funding sources -- the 12.4% payroll tax on earned income and the taxation of benefits -- would continue to supply Social Security with income that can be disbursed to eligible beneficiaries. But the depletion of these asset reserves suggests that the current payout schedule is not sustainable. The Trustees have opined that an across-the-board cut of up

to 21% may be needed to sustain payouts through the year 2092 without any further cuts. Considering that more than 3 out of 5 current retirees lean on their Social Security checks for at least half of their monthly income, a 21% haircut could prove disastrous. As for Congress, it is well aware that Social Security is headed toward trouble. Each and every Trustees report for the past 33 years has included a Trust Fund depletion date ranging between 2029 and 2050 (currently it is 2034). This probably has you and a lot of the American public wondering when Congress is going to fix this mess. While no one knows that answer for certain, I am of the opinion that lawmakers will wait until the 11th hour to work out a bipartisan bill to support Social Security (*i.e.*, 2033 or 2034). Though there are a number of Social Security amendments that have been passed since its inception, the program has only been in serious trouble once before. This was "resolved" with the passage of the amendments in 1983 that gradually increased the payroll tax and [full retirement age](#), as well as established the taxation of benefits, among other things. However, this resolution in 1983, along with comments made by President Trump in March 2013, offer clues as to how lawmakers are likely to approach fixing Social Security. For example, while the Reagan administration amendments are hailed as saving Social Security, they were [passed during the 11th hour](#) by necessity rather than good judgment. Congress witnessed the Social Security program pay out more in benefits than it generated in revenue beginning in 1975 and observed the trust fund ratio -- a measure of the program's asset reserves at the end of the year divided by expenditures for that year, expressed as a percentage -- decline in each and every year since 1970. In other words, lawmakers knew for more than a decade that Social Security was headed in the wrong direction but punted the issue down the road so many times that by 1983, they had no choice but to deal with it. The other clue comes from [comments made by Donald Trump](#) at the Conservative Political Action Conference in 2013. Said Trump, courtesy of the *Washington Times*:

If you think you are going to change very substantially for the worse Medicare, Medicaid and Social Security in any substantial way, and at the same time you think you are going to win elections, it just really is not going to happen... What we have to do and the way solve our problems is to build a great economy.

Effectively, Trump is suggesting that it is political suicide for politicians to tackle Social

Security's issues. While it eventually has to be dealt with, the truth of the matter is that all Social Security solutions [involve someone coming out as a loser](#). If, for instance, the payroll tax cap is raised or eliminated, then the rich will have to pay more into the program, despite not receiving one extra cent in lifetime benefits. Meanwhile, if the full retirement age were increased, future retirees would have their lifetime benefits reduced while protecting existing retirees. No matter what tough choices need to be made by lawmakers, someone will come out a loser -- and apparently no lawmaker wants to be responsible for making that call. All we can do is hope Congress comes to its senses sooner rather than later. In the meantime, I'd suggest you continue saving and investing for your future such that Social Security never becomes more than a Plan B or C. *The Motley Fool*, July 28, 2018.

8. HIGHLIGHTS FROM THE SOCIAL SECURITY TRUSTEES ANNUAL REPORT:

Tim Steffen reports that the Social Security Trust Fund reached a new milestone, and it is not good news for future retirees. The annual report from the Social Security Board of Trustees shows that the Trust Fund will begin running a deficit in 2018, while the long-range future of the fund causes even more concern. The Board of Trustees of the Social Security Trust Funds issued their 2018 report on the operations and status of the funds, and the news was not encouraging. The Board reported that for the first time since 1982, the total cost of Social Security retirement benefits paid in 2018 will exceed the total income generated by the fund, including tax revenue and income from investments. As a result, it is expected that the funds available to pay benefits to retired and disabled workers will be fully depleted in 2034. A depleted Trust Fund does not mean that benefits will stop being paid, however. As long as there remains a workforce that is paying taxes into the fund, there will be money available to pay future retirees. Those benefits will have to shrink, however – down to 79% of scheduled benefits in 2034, eventually falling to 74%. The Board offers some suggestions on how to ensure maximum benefits are paid to current and future retirees, but they are clear that the longer it takes to implement changes the harder it will be to ensure benefits remain available for future generations.

2017 Social Security Trust Fund Activity

The Social Security Trust Fund comprises two separate and distinct pools of money:

- The Old Age and Survivors Insurance Fund (OASI) pays benefits to retired

workers, their families and survivors of deceased workers.

- The Disability Insurance Fund (DI) pays benefits to disabled workers.

These two Trust Funds are separate and distinct legal entities, and one fund is not allowed to borrow from the other. However, the Board typically assumes that if one of the Trust Funds were to be depleted, the laws would be changed to allow the transfer of resources between them. Therefore, the combined balance of these accounts is typically referred to as the OASDI Trust Fund. The combined OASDI Trust Fund began 2017 with total assets of over \$2.85 trillion. Net tax collections for the year were over \$911 billion while earnings on the Trust Fund were more than \$85 billion for the year. The Trust Funds are invested exclusively in special securities issued by the US Treasury, with a combination of short term certificates of indebtedness and longer term bonds. For 2017, the combined Trust Fund paid benefits to about 62 million people. This included roughly 45 million retired workers and their families, 6 million survivors of retired workers and 10 million disabled workers. As a result of this activity in 2017 – plus additional expenses and adjustments – the OASDI Trust Funds ended the year with \$2.89 trillion. Of this, \$2.82 trillion is in the OASI Trust Fund and the remaining \$71 billion is in the DI Trust Fund.

Forecasts for the Trust Funds

The Board evaluates the financial condition of the combined Trust Fund over two different time periods – a 10-year short-range period and a 75-year long-range period. Projections are also done using three sets of assumptions – known as the intermediate, low-cost and high-cost assumptions. The different sets use varying assumptions for population variables (birth and death rates, immigration, *etc.*), economic variables (workforce participation, interest rates, wage growth, *etc.*) and program-specific variables (the number of insured workers, tax revenue, administrative expenses, *etc.*). Lastly, the Board assumes there are no changes in how revenue is raised (such as tax law changes or new investment strategies) or how benefits are to be calculated or paid. Using the intermediate-cost assumptions, the OASI Trust Fund is projected to decline in value in 2018, increase during 2019, and then decline in value every year after 2019 through 2027, the end of the short-range forecast period. By the end of 2027, the Trust Fund is expected to be worth \$2.15 trillion. Because the total value of the OASI Fund is expected to exceed 100% of the annual cost of benefits each year, this fund is considered “financially adequate” by the Board for the short-range. Unfortunately, the DI Fund does

not meet this test. Using the intermediate assumptions, the DI Fund is expected to decline in value each year from 2019 through 2027, leaving just \$35 billion in reserves at the end of 2027. Because the projected value of the fund in 2018 is less than the expected cost of benefits this year and remains that way through 2027 (not taking into consideration taxes and other Trust Fund revenues during the year), the DI Trust Fund fails the Board's short-range financial adequacy test. In fact, the DI Trust Fund has failed the short-range test every year since the 2007 Board of Trustees' report. When viewed in aggregate, the combined OASDI Trust Fund is projected to have enough money to pay all scheduled OASI and DI benefits through 2027, thereby meeting the short-range financial adequacy test. Under current law, one trust fund cannot be used to pay the obligations of the other, though the Board assumes a law change would be enacted to allow this to happen, if necessary. While the short-range forecast shows mixed results, the long-range forecast shows a much different picture for the OASI and DI Funds. The Board projects that the combined OASDI Trust Fund will only be sufficient to fully cover expected costs until 2034, using the intermediate assumptions. After this point, the Trust Fund would be fully depleted. When the Board uses their high-cost assumptions, this depletion is accelerated to 2029, while the fund would remain fully solvent for the 75-year period under the Board's low-cost assumptions. As the table below shows, this 2034 depletion date is in line with the projections for the last several years. What perhaps came as a surprise is that combined OASDI benefits will exceed tax collections and investment income on the Trust Fund assets in 2018. Just last year, this deficit was not expected to occur until 2022, which was two years later than the 2016 report's forecast. It is important to note that once the combined Trust Fund is fully depleted in 2034, the Social Security Administration will continue to provide benefit payments. However, because these payments will only be supported by the tax revenue collected in those years and not investment income or by accessing Trust Fund reserves, those benefit payments will have to be reduced. The Board projects that once the DI Trust Fund alone is depleted, benefit payments will be reduced to just 96% of the scheduled amounts. When the OASI Trust Fund is depleted in 2034, tax revenue would only be sufficient to pay 77% of scheduled benefits. On a combined basis the OASDI Trust Fund could support 79% of scheduled OASI and DI benefits in 2034. By 2092, that would fall to 74%.

Potential Solutions

Each year the Trustees Report includes a few suggestions on how to resolve this pending depletion of the Trust Funds. In the 2018 report, the Board provided the following suggestions:

- If changes are made immediately, any one of the following permanent changes would make the OASDI Trust Fund solvent for the next 75 years.
- The payroll tax used to fund the combined OASDI Trust Funds would need to increase from 12.4% to 15.18%, an increase of 2.78%.
- Benefits scheduled to be paid to all current and future beneficiaries would have to be reduced by 17%.
- Benefits scheduled to be paid to anyone who becomes eligible for benefits in 2018 or later would have to be reduced by 21%. Current beneficiaries would be unaffected.

If action is deferred until 2034, the year the OASDI Trust Fund is scheduled to be depleted, either of the following permanent changes would ensure solvency through the 75-year period:

- Increase the payroll tax from 12.4% to 16.27%, an increase of 3.87%.
- Reduce the amount paid to all beneficiaries by 23%.

While the solutions have fluctuated some over time, it is clear that by waiting to enact some form of change, the required changes become harsher for workers and retirees. The Social Security Administration's actuaries have also evaluated a variety of other proposals that have been put forth by members of Congress or others. A full list of those proposals can be found at www.ssa.gov/OACT/solvency/provisions/. The OASDI Trust Funds continue face a significant challenge in meeting their scheduled benefit payments, and those challenges threaten to impact all current and future beneficiaries. The Board of Trustees annually provide estimates of the type of tax increases or benefit cuts that are necessary to ensure the long-range solvency of the Trust Funds, but there is little appetite among politicians – as well as the general public – for these one-solution proposals. As a result, the changes necessary to protect the benefits paid by the Trust Fund become more extreme each year. Politicians and others have proposed a variety of other changes to all aspects of the revenue and benefit side of the equation, but many of these proposals

would only provide modest extensions to the life expectancy of these funds. As this problem continues to grow, and the date at which the funds are depleted grows closer, it is incumbent on all sides to work toward solutions. This is not a problem that will be solved by just changing one variable, and all affected parties will need to accept that the most likely solution to this problem will be a combination of increase revenue to the fund, including tax increases, and changes to how benefits are calculated and paid. The full 2018 Report from the Board of Trustees, as well as historical Trustee reports back to 1941, are available [here](#).

9. GOVERNMENT IMPOSTER SCAMS:

You get a text, call or email from someone who says they are with the government. They may claim to be a U.S. Marshal, saying you must pay a fine for missing jury duty. Or the IRS, saying that you owe thousands in back taxes. Some might threaten legal action, deportation or arrest if you don't pay up or give them your financial information. In other cases, it sounds less scary and more like your lucky day. The call, text, or email will say you've won a prize, the lottery, or a grant -- but you need to pay some fees or taxes to get your winnings. These are all scams. Scammers will try to make it seem legitimate. They might give you a badge number, or even know information like the last four digits of your Social Security number. A Washington, D.C. area code on your caller ID also might seem convincing. But caller ID can be faked. If someone calls, texts or emails saying they are with the government and you must pay, stop.

- Never send money -- especially by gift card, cash reload card or money transfer. No government agency will threaten you or demand payment this way.
- Do not give out your personal or financial information to anyone who calls, texts or emails.
- If you sent money to a government imposter, contact the company you used to send the money (gift card company, cash reload card company, or wire transfer service) and tell them it was a fraudulent transaction. Ask to have the transaction reversed if possible.
- Report it to the FTC at [FTC.gov/complaint](https://www.ftc.gov/complaint).

Carol Kando-Pineda, Attorney, Division of Consumer and Business Education, Federal Trade Commission.

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.

PUN TIME:

What is a thesaurus's favorite dessert? Synonym buns.

INSPIRATIONAL QUOTES:

With the new day comes new strength and new thoughts. - Eleanor Roosevelt

TODAY IN HISTORY:

On this day in 1995, Cable News Network joins the internet.

REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.

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