



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

1. CORPORATE PENSION FUNDING REMAINS ABOVE 90%:

Funding ratios for U.S. corporate pension plans saw little movement during the month of August, according to reports from Legal & General Investment Management America, Wilshire Consulting, Northern Trust Asset Management and Mercer. LGIMA found the funding ratio of a typical corporate pension plan remained unchanged at 90.5%, primarily driven by a drop in Treasury rates offset by widening credit spreads and positive global

equity returns during the month. LGIMA estimates Treasury rates decreased by 9 basis points, while credit spreads increased by 6 basis points, resulting in the average discount rate falling 3 basis points. Liabilities for the typical plan were up 0.8%, while plan assets with a traditional 60% equity/40% bond asset allocation also increased 0.8%, LGIMA said. According to Wilshire, the aggregate estimated funding ratio for U.S. pension plans sponsored by S&P 500 companies increased 30 basis points to end August at 90.7%, which is up 7.9 percentage points over the trailing 12 months. The monthly change in funding resulted from a 0.4 percentage point increase in liability values and a 0.8 percentage point increase in asset values. The aggregate funding ratio is up 6.1 percentage points year-to-date. "August saw funded ratios increase due to positive market returns for most asset classes," said Ned McGuire, managing director and a member of the pension risk solutions group of Wilshire Consulting. "August's 0.3 percentage point increase in funding brings the aggregate funded ratio to a high point for the year for the second consecutive month and remains over 90% funded for the second time since the end of November 2013." As measured by Northern Trust, the average funding ratio for S&P 500 companies with defined benefit plans remained unchanged at 90.2% in August from the month before. Global equity markets rising approximately 0.8% during the month drove the change, while the discount rate decreased to 3.82% from 3.87% during the month. "August continued the positive pension trend for 2018. A combination of rising interest rates and positive equity markets improved the funded status from 85% to 90%," said Dan Kutliroff, head of OCIO business strategy at Northern Trust, in a news release announcing the results. "This may present a good opportunity for plan sponsors to consider moving to preserve some of those gains by moving some of their assets from equity-like vehicles to fixed-income assets that behave more like the liabilities." According to Mercer, the estimated aggregate funding ratio of defined benefit plans sponsored by S&P 1500 companies remained unchanged at 91% as of Aug. 31 because gains in equity markets were offset by a decrease in discount rates. Discount rates decreased by 7 basis points to 4.08% in the month. The estimated aggregate deficit of pension fund assets of S&P 1500 companies totaled \$192 billion as of Aug. 31, down \$1 billion from the end of July. James Comtois, *Pensions & Investments*, September 6, 2018.

2. U.S. LAGS MANY DEVELOPED COUNTRIES ON RETIREMENT SECURITY:

Looking for a secure retirement? Might be best to look abroad. An annual ranking of global

retirement puts the U.S. in the middle of the pack, outpaced by countries like Switzerland, Iceland, Norway and Sweden. At No. 16, the U.S. did slightly better than its 2017 ranking, and beat out the U.K., Malta, France and Japan. The Natixis Global Retirement Index, which ranks 25 developed nations, gave the U.S. high marks for material well-being and its financial system. But declining life expectancy and high health care costs hurt the final ranking, the report found. The U.S. "has the highest score for the health expenditure per capita indicator yet is in danger of being in the bottom ten for life expectancy," the report found. "Meanwhile, the amount spent on healthcare per person for Chile, Czech Republic and Cyprus combined is less than two-thirds of what the US spends, yet all three of these countries have a higher life expectancy," it continued. Demographics, too, are not on America's side. "We've got the same problem the rest of the developed world has, which is an aging population. That means you have fewer younger people paying into retirement systems, and more older people taking money out," said David Goodsell, executive director of Natixis Investment Managers' Center for Investor Insight. On the plus side, the U.S. unemployment rate is lower than in many other countries, and interest rates are increasing. "Low interest rates are great if you're buying a house or a car," Goodsell said. "But if you're trying to save for retirement, that eliminates the amount of return you can get." Irina Ivanova, *MoneyWatch*, September 6, 2018.

3. WHY PENSION LIABILITIES MAY CROWD OUT CITIES' CAPITAL INVESTMENT:

The median net pension liability in the nation's 15 largest cities jumped 16% on a per capita basis to \$2,741 in fiscal 2017 from \$2,361 a year earlier, an annual survey by S&P Global Ratings said. The increase suggests "that pension liabilities are growing at a faster rate than debt and contributing to a cost trajectory that will likely tend to favor spending on pensions over debt and, by extension, capital investment." Twelve of the nation's 15 largest cities are paying more for pension costs than for debt service. Chicago, Dallas and Jacksonville have fixed costs for pensions, other post-employment benefits and debt service in excess of 30% of their annual budgets while San Jose is just under 30%. The other 11 cities included in the report are Austin, Columbus, Houston, Indianapolis, Los Angeles, New York, Philadelphia, Phoenix, San Diego, San Antonio and San Francisco. "Fixed costs for pension and OPEB obligations appear poised to remain a front-and-center credit issue across the municipal sector for the foreseeable future," the report said. High fixed costs are putting pressure on the budgeting for public safety and public works for

cities that lack revenue growth from tax increases or new sources of revenue. “The upshot of all of this is that any of the major cities that currently faces a backlog of deferred capital will only find it more difficult to keep pace with demand for new infrastructure investment, as mounting legacy costs command an ever greater share of budgets,” the report said. The median funding level for public sector pensions provided by the 15 cities is 69%, which is similar to two years earlier when it was 70%. Chicago ranked at the bottom because it funds only 26% of its pension liabilities while Indianapolis ranked at the top at a 96% funding level. “Most municipal pension plans experienced sharp declines in asset values during and after the recession and have since struggled to return to the comparatively strong funding levels that were common in the early 2000s,” S&P said. Compounding the problem is that many jurisdictions have had to lower their rate-of-return assumptions and retirees are living longer. Rate-of-return assumptions in most of the nation’s largest cities have been reduced in recent years. Their average assumed rate of return on pension investments was 7.3% in fiscal 2017, which S&P views favorably, noting in the report that it is in line with national trends. The highest assumed investment return was 8% by the Ohio Police and Fire Pension Fund, in which the City of Columbus participates. The next highest was a 7.75% assumed investment return by the Philadelphia Board of Pensions and Retirement. “Dallas’s Police and Fire Combined Pension Plan assumed the lowest 4.12% single blended GASB discount rate as of Jan. 1, 2017 (combining a 7.3% investment rate of return with a municipal bond rate), and results in the lowest reported funded ratio among the largest cities’ largest plans at 25.5%, though more recent pension reform will likely yield a stronger funded ratio after 2017,” the report said. Likewise, Chicago is mandated under law to achieve 90% funding of each of its four public sector pension plans over 40 years and to actuarially begin funding them toward that goal at the end of a five-year ramp up period. The National Association of State Retirement Administrators released a national survey of 128 state and local plans in February that found the average assumed investment return has dropped to 7.36% from 7.91% in fiscal 2010. In addition to making these adjustments, many cities have dynamic economies. S&P said the nation’s largest cities “tend to be the economic engines propelling robust regional economies and to that extent have greater revenue-generating capacity.” In general the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry

inflation risk and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible. Lower-quality debt securities generally offer higher yields, but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Any fixed income security sold or redeemed prior to maturity may be subject to loss. Before investing, consider the funds' investment objectives. Brian Tumulty, *Fidelity*, September 6, 2018.

4. THE LARGEST U.S. CLASS ACTION SETTLEMENTS BY STATE:

Since its inception, ISS Securities Class Action Services LLC (“SCAS”) has tracked more than 10,000 cases across the U.S. In this report, SCAS examines the largest securities class action settlements by U.S. state as well as the District of Columbia. SCAS identified 48 cases as the largest securities class action settlements, by total settlement amount and by state. Three states – Alaska, Hawaii, and Wyoming – have yet to see class action settlements within their Federal court dockets. Of the largest cases by state, key highlights include:

- › The 48 settlements total \$32.1 billion (or an average of \$668.9 million);
- › Seven states had settlements valued at \$1 billion or higher;
- › One state’s largest settlement was less than \$1 million; and
- › 2016 saw the largest volume of settlements by dollar amount.

The largest case not included within this report is the \$3 billion Petrobras settlement, the fifth largest of all time, due to the case’s jurisdiction within the United States District Court (Southern District of New York). In fact, five of the top 10 settlements of all-time have taken place within the USDC (Southern New York); including AOL Time Warner, Bank of America, Nortel Networks, and New York’s largest settlement of all time, WorldCom. For more information on both the largest federal and state cases, plus SEC Disgorgements, please see SCAS’s [Top 100 U.S. Settlements of All Time](#) report. ISS Securities Class Action Services, September 5, 2018.

5. SPILLOVERS FROM STATE AND LOCAL PENSIONS TO SOCIAL SECURITY; DO BENEFITS FOR UNCOVERED WORKERS MEET FEDERAL STANDARDS?:

A working paper finds that the federal law allows certain state and local government employees to be excluded from Social Security coverage if they are covered by an employer pension of sufficient generosity. Public sector retirement systems have grown less generous in recent years, and a couple of plans could exhaust their assets in the next decade, putting benefits at risk. If pension sponsors are inattentive to federal generosity requirements when cutting benefits, current and future initiatives to curb costs may conflict with their obligations to the U.S. Social Security Administration (SSA). This project combines data from a variety of sources to assess whether state and local governments are currently satisfying the federal standards and whether the standards continue to provide benefits of equal generosity to Social Security. The paper also found that:

- Although public plans satisfy the regulations, uncovered state and local government employees do not always receive Social Security-equivalent resources in retirement because the law regulates benefits only at age 67 (rather than lifetime benefits) and allows for long vesting periods.
- State and local pensions often set very long vesting periods and are increasingly unlikely to grant full cost-of-living adjustments (COLA) after retirement. Yet, they also allow members to collect full benefits at much younger ages than Social Security. Incorporating vesting, the COLA, and the normal retirement age into a generosity test based on lifetime pension wealth shows that some plans fall short, but this finding is very sensitive to the employment patterns of the uncovered employees.
- A couple of plans that exclude their members from Social Security could soon exhaust the assets in their trust funds and revert to pay-as-you-go systems, endangering future benefits and putting them in violation of federal generosity standards.

The policy implications of the findings are

- Federal generosity standards for state and local pensions could be updated to ensure Social Security-equivalent protections.
- Over time, mandatory enrollment of state and local government employees in Social Security would obviate the need for federal monitoring of their pensions.

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Laura D. Quinby, Jean-Pierre Aubry and Alicia H. Munnell, *Center For Retirement at Boston College*, September 2018, WP#2018-9.

6. FIRE DEPARTMENTS STRUGGLE TO MEET NEW DEMANDS:

BY [DANIEL C. VOCK](#) | SEPTEMBER 2018

The job of a firefighter is not what it used to be. Take Charlottesville, Va., for example, where in just the past 18 months the fire departments in the city and surrounding Albemarle County have searched the wreckage of a plane crash in a hard-to-reach wooded area, performed water rescues after spring floods, responded to the derailment of a passenger train carrying Republican members of Congress and, most memorably, provided medical assistance during white supremacist rallies in Charlottesville, including an incident that left three people dead last summer. This was all in addition to dealing with downed power lines, an ammonia leak, frozen pipes and yes, even a few fires. The workload of fire departments has grown substantially, even as their core mission -- putting out fires -- has dwindled. "Communities tend to lean on the fire service in times of crisis," says Charlottesville Fire Chief Andrew Baxter. "People are looking to the fire service for leadership and partnership for all aspects of emergency response." But that ever-evolving mission has brought new strains. It requires training and planning for new dangers such as civil disturbances or active shooters. With increased call volumes, it requires more personnel at a time when a growing number of agencies are finding it difficult to recruit both career and volunteer firefighters, and to diversify their workforces to include more women and minorities. And it comes as some cash-strapped cities are questioning whether the old system of responding to larger call volumes by deploying more firefighters with bigger equipment at more fire stations is sustainable anymore. As an affluent city of 47,000 that is home to the University of Virginia, Charlottesville is no backwater. But it is struggling with how to meet today's new demands like everyone else. It alone could not handle the events of Saturday, Aug. 12, 2017, when white supremacists gathered for a "Unite the Right" rally and thousands of counterprotesters came out to oppose them. The city and county reached out to departments throughout the state to be ready with fire suppression, hazardous material controls and emergency medical teams to respond to

events. The Charlottesville Fire Department ultimately helped coordinate a massive emergency response, one of the largest public safety deployments in Virginia history. Tensions were high. Local firefighters spent 72 hours in what fire officials describe as a combat environment. Baxter was worried enough about their condition to bring in mental health counselors from around the country who specialized in treating firefighters. That Monday, every Charlottesville firefighter took the day off. Five engine companies, a ladder truck, a battalion chief and four medic units from departments elsewhere in Virginia kept watch over the city. “We turned over fire and rescue duties for Charlottesville for 24 hours,” Baxter recalls. “Nobody said no. It was a special moment.” And it is a moment that is emblematic of firefighters’ changing roles. In 2016, the last year for which data were available, fire departments in the United States responded to 35.3 million calls. That is more than three times as many as in 1981, even though the U.S. population increased by only 42 percent. The striking thing is that, during that time, the number of fires that these departments responded to actually fell to less than half of the number in 1981. By 2016, fires made up less than 4 percent of all the calls that fire departments responded to. Medical emergencies accounted for 68 percent. The growing share of medical emergencies handled by fire departments is a long-developing trend, but departments still struggle to adjust to their changing mission. On the one hand, their new role as “all-risk, all-hazard” response teams makes them indispensable in disaster planning and mitigation. On the other hand, the more their core duties stray from fire suppression and rescues, the more difficult it is to train, recruit and retain the workers they need. “Our recruiting pamphlets for fire departments show people fighting fires in their bunker gear or pulling people out of vehicles,” says Thomas Jenkins, the fire chief in Rogers, Ark. “But the first thousand calls in a firefighter’s career may not involve any of those things. We save exponentially more people in emergency medical care. But we don’t do a good job educating people about what it is.” There are several other reasons why recruiting and retention have grown more difficult. One is that the financial payoffs do not look as attractive for salaried firefighters as they once did. Pensions for veteran firefighters have generally remained intact, but retirement benefits for new recruits are less generous than they were before the Great Recession. Salaries have been essentially flat, with national median pay hovering around \$49,000 for the past several years. Now that the nation’s unemployment is down to around 4 percent, firefighters are looking at other opportunities earlier in their careers than they once did. Their training in emergency medicine can make

them attractive candidates for jobs in health-care professions, something that was not the case a couple of decades ago. While there is been a slight uptick in the number of career firefighters from 2010 to 2015, departments are still having a hard time meeting staffing demands. This is especially true in smaller jurisdictions. Industry standards require a minimum of four firefighters assigned to every engine or pumper. More than a third of cities with at least half a million people reported in 2015 that they did not meet that staffing threshold, compared with a fifth in 2010. But among cities with populations between 50,000 and 100,000, 80 percent did not meet the four-fighters-per-engine standard. The unavoidable truth, says Jenkins, "is that we have a very legitimate recruitment and retention problem for full-time fire departments. Almost every department is seeing a decrease in people testing and applying to be firefighters." The situation only promises to get worse as a wave of baby boom firefighters retires over the next several years. Part of the problem is convincing candidates to sign up for the intense lifestyle of fire service. For career firefighters, for example, that usually means working a 24-hour shift and then getting two days off. "It's hard to maintain a work-life balance with families and side jobs," says Jenkins. "If you've had two or three calls after midnight, it's tough to be a good dad, a good husband or to go to a second job." Smaller departments that rely heavily or exclusively on volunteer firefighters have been grappling with this problem for a long time. Dave Finger of the National Volunteer Fire Council says the number of volunteers has remained about the same, but call volumes have increased significantly. Small-town residents who might be interested in volunteer fire work are traveling ever-longer distances to get to their regular jobs, leaving less time for pursuits like volunteering. Then there is the simple matter of figuring out whose job it is to recruit new members when the whole department is made up of volunteers. "How much bandwidth does a volunteer fire chief have to engage in a professional recruitment campaign," Finger asks, "when he or she also has to make sure everybody is trained, has to make sure that the department's equipment is maintained, and has to get out there and respond to calls?" Many rural fire departments have switched from all volunteers to a mix of volunteers and career firefighters, specifically so they can have a full-time fire chief to take care of all the administrative tasks and paperwork. Meanwhile, fire departments are struggling to become more diverse; they are still overwhelmingly white and male. Among career firefighters, only about 5 percent are women. Blacks and Hispanics are also underrepresented. The gap is significantly wider in many major cities. But women and

minorities are better represented among paramedics and emergency medical technicians working for fire departments -- 31 percent of paramedics and EMTs are women, 10 percent are black and 9 percent are Latino. Paramedics and EMTs are generally paid less than firefighters. In the #MeToo era, sexual harassment, misconduct and discrimination lawsuits against fire departments create serious image problems and recruitment obstacles. In Fairfax County, Va., the fire chief recently stepped down after years of criticism over how the department -- which is widely respected for its urban search-and-rescue team -- handled charges of bullying, favoritism and harassment. The scrutiny came when a 31-year-old firefighter killed herself, following online harassment from her colleagues (it was unclear whether those comments played a role in her suicide). Fire Chief Richard Bowers ultimately retired after the widower of the firefighter called for his resignation. In Chicago, five women paramedics sued the Chicago Fire Department, charging that they were groped and harassed by their superiors. One veteran field chief, the suit claims, used a special key to unlock the sleeping quarters of a paramedic as she slept. Salt Lake City is fighting allegations of sexual harassment, discrimination and retaliation after its fire department demoted and then fired its first female battalion chief. In San Diego, a captain filed a lawsuit in May alleging that her coworkers groped her, unzipped her shirt, shared sexually explicit images, sent suggestive and unwanted text messages, denied her promotions routinely given to her male colleagues, and then made her harassment complaints public, which led to more harassment. Fire departments are wrestling with these damaging personnel issues as they confront rising demands on their resources and infrastructure. State and local governments spend roughly \$2 billion a year on construction for fire departments, an amount that's been slowly inching up in inflation-adjusted terms since the end of the Great Recession. But Jenkins, the Arkansas fire chief and a former president of the International Association of Fire Chiefs, says getting local officials and voters to support new spending on firehouses has become tougher. "Fire departments had a tendency when they needed resources to make a generic argument: 'We save lives. If we don't get what we need, there are dangerous consequences,'" he says. That argument is not working as well in an era when local governments face tighter budgets and a skeptical public that scrutinizes local spending. "People want to make sure local government is accountable," Jenkins says. "That's driven fire departments to articulate their need." One way to do that is to stress the challenge to abide by industry standards, particularly one specifying that fire services should arrive at the scene of a call

within four minutes of leaving their station. (That's become an especially important benchmark as open residential floor plans and more combustible household items make fires burn hotter and faster.) Accrediting agencies consider how well fire departments meet that standard of promptness, so it makes sense for cities to plan their infrastructure around achieving those goals. "For a long time, there was just one answer: build a new fire station," Jenkins explains. "That's still going to be a solution sometimes." His own department in Arkansas asked voters in August to fund a new station. "But sometimes improving road infrastructure or moving a fire station to a major arterial can have a small but important impact as well." That's one reason, in fact, that Jenkins was involved in planning not only the fire department projects, but also the road plans in his city's recent bond question. "Road connectivity will greatly reduce the need to build more fire stations as our city continues to grow," he says. It's another sign that fire agencies are becoming more deeply enmeshed in aspects of local government many of them used to ignore. In the Charlottesville area, fire departments are playing a critical role in the design of new housing developments, especially the creation of walkable areas with narrow, tree-lined streets and houses clustered closely together. Those designs can make it difficult for fire trucks to get through on neighborhood streets, an issue that has generated plenty of conflict in other places. But those conflicts can be avoided, says Dan Eggleston, the chief of the Albemarle County Department and president of the International Association of Fire Chiefs. "The fire department likes those [walkable] designs if we get in on the early stages of the planning process. We are not opposed to these designs. We have wonderful designs that blend our need for access with the desire for walkable communities." Installing flat curbs at intersections can help fire engines make sharp turns, and parking restrictions help not only fire trucks, but school buses and trash trucks as well, Eggleston says. Recently, he was involved in the planning of a development that had a grass courtyard instead of a street. That might have prevented fire trucks from getting to the residences in case of a fire. So they reached a compromise: The developer installed porous pavers that could hold a 100,000-pound ladder truck but still allow grass to grow through them. Not all departments have been so accommodating. Firefighters in Baltimore, for example, have fought vehemently against proposed bike lanes that, they argue, will not leave enough room for large equipment, such as tiller trucks with outriggers that anchor the trucks when ladders are in use. To make their point, firefighters filmed a video outside the house of a leading bike activist to show the difficulties of using fire

equipment on narrow streets. Adding to tensions, cycling advocates complained to the city council that firefighters threatened them at a hearing on the issue. The cyclists ultimately won a court battle that prevented Baltimore from tearing out a recently installed bike lane. San Francisco has taken almost an opposite approach to the growing demand for walkable streetscapes: buying smaller fire engines that are better adapted to operate in tighter spaces. These new trucks are narrower, with fewer protruding parts than the fire engines they replaced. They have a smaller turning radius, and they're outfitted with cameras that help avoid crashes with vehicles, cyclists or pedestrians. In Portland, Ore., Fire Chief Mike Myers makes the case that the fire department ought to be leading the movement toward more walkable neighborhoods. Those environments help improve the health and safety of residents, he says, and they haven't led to any reduction in the fire department's response times. "Our opinion from the fire service is that vibrant cities don't burn," Myers says. "If we change the vibrancy of an area, then that area won't have a high likelihood of a shooting. That area will not have a high likelihood of a pedestrian accident and will not likely have a fire. That is our goal. And that's where we're putting our money and our attention." Myers argues that fire departments need to get involved in those problems earlier, because the city can't afford to keep hiring more firefighters and buying more equipment to cover the escalating needs of its growing population. The Portland Fire Department is currently working with researchers at Harvard University to develop predictive analytics that can tell them where fires are most likely to occur. Meanwhile, each of the city's 31 firehouses is developing plans to address the problems they most commonly face, whether those are wildfires or health problems among homeless people. The idea is to get the fire department to work with other government agencies and nonprofit groups to alleviate those issues. "If we can [do better] at cooperating with multiple bureaus," Myers says, "I'm doing my job as a fire chief by ultimately making sure the call doesn't happen in the first place." Daniel C. Vock, *Governing*, September 2018.

7. OXYMORONS:

Why do we sing "Take me out to the ball game" when we are already there?

8. INSPIRATIONAL QUOTES:

With self-discipline most anything is possible. - Theodore Roosevelt

9. TODAY IN HISTORY:

On this day in 1905, the physics journal Annalen der Physik publishes Albert Einstein's paper "Does the Inertia of a Body Depend Upon Its Energy Content?", introducing the equation $E=mc^2$.

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

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