



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

1. RETIREES SAY INCOME REPLACEMENT NEEDED NOT AS HIGH AS PRE-RETIREES THINK:

Retirees are considerably less concerned than pre-retirees about their money lasting throughout retirement; they worry more about declining health, according to a survey by Massachusetts Mutual Life Insurance Co. Ninety-one percent of retirees are confident

their savings will last throughout their lifetime, compared to only 56% of pre-retirees. While 28% of pre-retirees worry they will not have enough money to enjoy themselves in retirement, this is only true for 7% of retirees. In fact, retirees' biggest concern, cited by 29%, is health care costs. Seventy-eight percent of pre-retirees worry they will not have enough income in retirement, compared to 51% of retirees. Other concerns of pre-retirees compared to retirees: changes in Social Security benefits (81% versus 69%) and low interest rates hurting income (69% versus 57%). Sixty percent of pre-retirees believe they will need at least two-thirds or more of their pre-retirement income to live comfortably in retirement, but only 44% of retirees say this is actually true. Thirty-three percent of pre-retirees think they will need 75% or more of pre-retirement income, but 33% of retirees say they need less than 50%. "While many retirees can manage their expenses to lower income levels in retirement, the rising cost of care may steadily reduce their lifestyles as they age," says Tom Foster, head of retirement plans practice management at MassMutual. "It's far better to err on the side of having more rather than less income than you anticipate needing, especially as costs for care continue to escalate." Seventy percent of pre-retirees think they will need to spend less in retirement than in their working years. While it is true that 50% of retirees say they spend less, 41% say they spend the same amount and 8% say they spend more. Eighty-four percent of pre-retirees wish they had started saving sooner, but only 55% of retirees say the same. Greenwald & Associates conducted the online survey among 801 retirees and 804 pre-retirees in January. Lee Barney, *Plansponsor*, June 25, 2018.

2. RETIREMENT ASSETS TOTAL \$29.2 TRILLION IN THIRD QUARTER:

Total US retirement assets were \$29.2 trillion as of September 30, 2018, up 2.8 percent from June 30, 2018. Retirement assets accounted for 33 percent of all household financial assets in the United States at the end of September 2018. Assets in individual retirement accounts (IRAs) totaled \$9.5 trillion at the end of the third quarter of 2018, an increase of 3.0 percent from the end of the second quarter of 2018. Defined contribution (DC) plan assets were \$8.1 trillion at the end of the third quarter, up 3.3 percent from June 30, 2018. Government defined benefit (DB) plans -- including federal, state, and local government plans -- held \$6.1 trillion in assets as of the end of September 2018, a 2.9 percent increase from the end of June 2018. Private-sector DB plans held \$3.2 trillion in assets at the end of the third quarter of 2018, and annuity reserves outside of retirement accounts

accounted for another \$2.3 trillion.

Defined Contribution Plans

Americans held \$8.1 trillion in all employer-based DC retirement plans on September 30, 2018, of which \$5.6 trillion was held in 401(k) plans. In addition to 401(k) plans, at the end of the third quarter, \$550 billion was held in other private-sector DC plans, \$1.0 trillion in 403(b) plans, \$332 billion in 457 plans, and \$606 billion in the Federal Employees Retirement System's Thrift Savings Plan (TSP). Mutual funds managed \$3.7 trillion, or 67 percent, of assets held in 401(k) plans at the end of September 2018. With \$2.3 trillion, equity funds were the most common type of funds held in 401(k) plans, followed by \$1.0 trillion in hybrid funds, which include target date funds.

Individual Retirement Accounts

IRAs held \$9.5 trillion in assets at the end of the third quarter of 2018. Forty-seven percent of IRA assets, or \$4.5 trillion, was invested in mutual funds. With \$2.6 trillion, equity funds were the most common type of funds held in IRAs, followed by \$949 billion in hybrid funds.

Other Developments

As of September 30, 2018, target date mutual fund assets totaled \$1.2 trillion, up 4.0 percent from June. Retirement accounts held the bulk of target date mutual fund assets. Eighty-seven percent of these assets were held through DC plans (67 percent of the total) and IRAs (20 percent). The quarterly retirement data tables are available at "[The US Retirement Market, Third Quarter 2018.](#)"

Investment Company Institute (ICI), December 2018

3. NJ PENSION FIX CRUCIAL AS STOCK MARKET DIVES | FEEDBACK:

Since I started working for the State of New Jersey 20 years ago, I have heard about the problems of its pension funds. Enough is enough! There may be only one governmental leader who is realistic enough to see that the general public-employee pension fund will never become solvent without serious reform. That is why, as a lifelong union member, I fully support state [Senate President Sweeney's pension reform plan](#). Under his plan, every current state employee with at least five years service would retain his or her pension. No

promises to them will be broken. (Newer and future state workers [would be shifted to 401\(k\) type-plans.](#)) Those who are considering public-sector jobs would know exactly the type of retirement plan they'll have, so that they can make an informed decision on whether or not to take these jobs. This is fair. I am sick and tired of the naysayers who have no realistic plan of their own to fix the pension system. What also bothers me is that many of the opponents to proposed changes, such as activist organization leaders, are not even public employees. The stock market is dropping, the economy will soon slow down, and the pension system is in horrible shape. The future is bleak, too. Rhetoric must stop and action must occur. Sweeney's proposed changes are good for the workers who are currently in the plan. That is why I fully support these reforms and urge all current government workers to educate themselves and, hopefully, come to the same conclusion. Time is running out. Those of us who currently are in the Public Employee Retirement System in the plan must take control. Reform this pension plan now. Michael J. Makara, Mays Landing, NJ.com, December 23, 2018.

4. ANALYSIS: PENSION PLAN OUTLOOK ROSIE WITH FUNDING INCREASE:

After mandating an increase in employer contributions to Mississippi's public pension system, projections reported to the Public Employees Retirement System show finances look to be in good shape - at least for now. But that assessment comes with a caveat. Investment returns, economic conditions or state employee levels could change over the next 30 years and changes in any of those could change the projected outcomes. "The results, collectively, are positive," said the system's executive director, Ray Higgins said last week after a presentation to the board by actuaries. "PERS is stable, but we're not perfect." The whole goal with PERS is to improve its current position - where actuaries project its \$27.7 billion in assets is 61.8 percent what's needed in the future to pay off benefits employees and retirees have already earned. The board wants to reach at least 80 percent funding by 2047. The PERS board, with projections showing it wouldn't make that goal, voted in June to require employers to pay 17.4 percent of a worker's salary to the system beginning July 1, 2019, up from 15.75 percent now. That money will mostly come from taxpayers, since PERS' beneficiaries are employees of the state, public schools, local governments, community colleges, universities and other agencies such as hospitals. The employees themselves will keep contributing 9 percent of salary. City and county governments have already set aside money to pay their increases, because their

budget years run through Sept. 30. Lawmakers need to add about \$75 million in the coming legislative session to cover increased contributions for state and education agencies. Gov. Phil Bryant asked for the money, and current revenue projections show it should be available. But top lawmakers adopted a proposed budget that basically says they'll decide later. With higher contributions pumping in \$100 million more each year, projections show PERS should reach 96 percent funding by 2047. The ratio is projected to climb slowly for the next decade, and then more rapidly. "We've got to weather this baby boom retirement bubble in the next 10 years," actuary Ed Koebel told the board. "If we withstand that, this plan begins to strengthen." The projections rely on key assumptions. The most important is how much the system will earn on investments each year. The fund projects it will earn 7.75 percent each year. But there's a lot of pressure from credit rating agencies and others who believe such a high rate of return will be unrealistic in the future, expecting low interest rates and low economic growth. If PERS returns drop to 7 percent annually, it would only be 57 percent funded in 2048. Less important, but still significant, is what happens if the number of active contributing employees keeps shrinking, or if their pay raises are less than expected. The plan assumes the number of overall employees will stay flat and that pay will grow at 3.25 percent a year, but employee numbers have shrunk and pay barely budged in recent years. The other worry is the power of one bad year in the market, especially early on. If the fund loses 7 percent this year, total assets would barely increase over three decades, even if every other year meets expectations. Part of the current hole stems from the bad years PERS had in 2008 and 2009, though returns since then have been good. But the one thing most true about the projections - nothing will go exactly as planned for 30 years. Adjustments will be necessary. "We're here to monitor this every year," Koebel said, "and we're going to monitor this every year." Jeff Amy has covered politics and government for *The Associated Press* in Mississippi since 2011. Jeff Amy, *Associated Press*, December 23, 2018.

5. SOME UNIONS TURNING TO VARIABLE BENEFIT PENSION PLAN MODEL:

As a special committee in Congress continues to grapple with ideas to help struggling multiemployer pension funds and to keep others from the same fate, an increasing number of trustees are forging ahead with shared-risk or variable benefit plan designs that can better match benefits to market returns. "If Congress does something creative with pension reform, that's great, but we weren't going to wait around for it. We wanted to take

the initiative just in case something isn't worked out," said Jason Engels, chairman of the \$95 million New Orleans Carpenters Pension Plan, a plan close to 100% funded that added a variable plan design for all benefits that have accrued since May. The basic premise of a variable defined benefit or annuity pension plan is that benefits are adjusted up or down based on investment returns. The assumed rate of return is called the hurdle rate, typically between 4% and 6%, which determines whether benefits for all participants, including retirees, rise or fall on a plan year basis. Like current practice, trustees set benefit accrual rates, including one-time increases, and bargaining parties negotiate contribution rates. However, annual adjustments to the variable benefit reflecting the plan's investment performance are driven by a preset formula. "No one variable plan design works for all plans. The main objectives of a pension board will influence the ultimate design, including balancing contribution risk and benefit risk resulting from investment volatility," said Jeanette Cooper, vice president and consulting actuary with Segal Consulting in Atlanta. She worked with the carpenters' plan, which features a 2.5% of salary accrual rate, a 5% investment return hurdle rate and a maximum 10% adjustment -- up or down -- in any year. The investment return is based on a five-year average of market returns, and benefits continue to float when participants are in retirement. "We've been thinking about it for several years. It seemed like a good opportunity to go ahead and add the variable annuity design to guard against volatile markets and offer a plan attractive to our members as well as current and future employers," said Mr. Engels. Other pension funds in the five states covered by the Central South Carpenters Regional Council where he is executive secretary-treasurer are also considering it, as plan trustees become more open-minded and plan participants realize the increasing demands on multiemployer defined benefit plans. "Things are changing, and they are going to have to change," he said, noting most plan participants viewed the new design favorably. "Change is hard, of course, but our members understand the importance of maintaining a well-funded plan. "With this plan design, our contractors and members both share, good or bad. I tell them it's better to put a plan in place now that accounts for potential future market downturns than be reactionary 20 or 30 years down the road with unanticipated benefit cuts or contribution increases. We are just putting the proper measure in place to make sure this plan stays well-funded," Mr. Engels said.

Other features

Features of other variable plans in place or on the drawing board depend on recommendations from the actuarial firms and consultants who are spending increasing amounts of time fielding calls of interest, modeling the concept for their multiemployer plan clients, and launching them. Some have floors on how low benefits can dip if markets drop, and some build reserves to offset benefit drops in those cases. One approach is to add variable features to existing plans so that benefits change going forward, while other trustees choose to start a variable plan and manage it along with the existing legacy defined benefit plan. Launching a variable plan alongside a legacy defined benefit plan does not address withdrawal liability in the legacy plan but does diminish the likelihood of withdrawal liability in the new plan. For the carpenters' plan, "using a variable benefit for new accruals reduces the likelihood of having withdrawal liability as more and more of the total benefits become variable," Ms. Cooper of Segal said. Gene Kalwarski, CEO of actuarial consultant Cheiron Inc. in McLean, Va., said variable plan design options "all over the place" are being presented to more plans. "We alone are discussing it with a couple dozen situations. Multiply that by five for the other firms," he said. Some potential adopters came to the idea after considering switching to a defined contribution plan to calm contributing employers' concerns over mounting contributions or unfunded liabilities, while others even made the switch to defined contribution, before realizing the variable plan option. "The barbells are DB and DC, and people haven't spent enough time in the middle," said Mr. Kalwarski. Trustees for the United Food and Commercial Workers Union Local 663 in Minneapolis started discussing a variable benefit plan in addition to their \$550 million defined benefit plan about five years ago, and began seriously studying it about two years ago, said Robert Kurak, a vice president and consulting actuary with Segal Consulting in Minneapolis. The variable plan will take its first contributions in January and cover 4,000 active participants. "There was a lot of interest on both sides of the table in securing lifetime benefits, where they don't have to worry about benefits becoming underfunded," he said.

More expected to switch

Kelly Coffing, a principal and consulting actuary with Milliman Inc. in Seattle, expects to see "more and more" variable plans in the multiemployer realm. By January, her firm will have converted 10 multiemployer plans and two corporate plans to its trademarked "sustainable income" variable design. The first plan went live in 2015. It calls for no floor

on how low benefits can dip, but it sequesters some investment earnings from high-return years to build up a reserve that can be used to protect future benefits. "I think we are really at an inflection point where variable plans could be the future of DB plans," said David Blitzstein, a former UFCW benefits director and longtime advocate of variable plan design who consulted on the Minneapolis plan. While the concept has been around for a while, two major financial downturns in less than two decades helped actuaries, plan consultants and multiemployer plan trustees rediscover it, he said. "I think people are frustrated with investment risk and they are frustrated with changes in demographics," said Mr. Blitzstein, who is now president of Blitzstein Consulting LLC advising labor unions and multiemployer plans. "I like the potential for what it can do. You can derisk your portfolio and you can keep your promises to participants."

Hazel Bradford, *Pensions & Investments*, December 24, 2018.

6. NEWSMAKER 2018: PENSION CRISIS THREATENED LOCAL GOVERNMENTS' BUDGETS:

Despite a decade of economic growth, local governments across California spent much of 2018 scrambling to get out ahead of looming budget deficits and keep services and staff off the chopping block in years ahead. Santa Cruz County was no exception. Growing deficits appeared in budget forecasts of the county government and each of its four cities at the start of the year, prompting a slate of tax increases sent to voters in June and November elections. A variety of factors contribute to the projected deficits, including aging infrastructure and stagnant sales tax revenue as consumers do more of their shopping online. But perhaps the biggest single factor, according to budget projections and interviews with city officials throughout the year, has been termed the 'pension crisis': CalPERS, the state public-employee retirement fund, lost about \$100 billion in the Great Recession, leaving the nation's largest fund of its kind with only about two-thirds of the assets needed to cover its commitment to retirees. CalPERS' lack of funding and poor investment returns have left local governments on the hook to pay about twice as much toward pensions as in the past. In 2007, the average city spent about 8 percent of its general fund on pensions. By 2024, cities expect to pay about 16 percent of general fund dollars, according to a January report by the California League of Cities. The report called the rising costs "unsustainable," warning that cities had few options and could be forced to "significantly reduce or eliminate critical programs" if new revenue couldn't be found.

Financial forecasts looked especially grim in the city of Santa Cruz early in 2018 as the city projected annual deficits growing to \$20 million by 2021, prompting the city to declare a fiscal emergency in February. Watsonville, Capitola and Scotts Valley each projected their own deficits in years ahead, as did Santa Cruz County. In February, Watsonville City Manager Matt Huffaker -- then assistant city manager -- called the rising pension costs “the single greatest threat” to the city’s ability to continue to provide its current level of services.

Tax increases soften blow

Faced with looming deficits and rising pension costs, Santa Cruz County’s local governments sent a series of tax-increase measures to voters in June and November — as did numerous others across the state. In Santa Cruz, Measure S, the quarter-cent sales tax increase passed in June, is expected to bring in an additional \$3 million per year. Those funds, together with the city’s \$8 million advance payment toward future pensions costs in June, have left Santa Cruz in a much better position at the end of 2018 than at the start of the year, according to Santa Cruz Finance Director Marcus Pimentel. “What we have in front of us is more achievable,” Pimentel said. “We still have work to do. We’re still forecasting deficits, but we’re confident in our different plan scenarios that we’ve got some solutions.” Santa Cruz County was able to cut its own projected deficits from between \$7 million and \$9 million to between \$1 million and \$3 million in coming years after voters approved a half-cent sales tax increase, Measure G, in November. Watsonville, Capitola and Scotts Valley each passed increases to the cities’ transient occupancy taxes -- applied to hotels and other short-term accommodations -- in November that are expected to help each city dig its way out of the projected deficits. Santa Cruz County increased its own “hotel tax” earlier in the year. Additional tax increases and other cost-savings measures remain in consideration to make up the difference.

Nicholas Ibarra, Santa Cruz *Sentinel*, December 24, 2018.

7. CITY, STATE COMPTROLLERS TAKE DIFFERENT APPROACHES ON PENSION-FUND PRESSURE:

The elected officials responsible for the city’s and state’s pension-investment portfolios agree that addressing climate change is vital for the future of the planet. There is also consensus that their respective investments should be leveraged to favor companies that

promote long-term environmental sustainability. But there is a major parting of the ways between the city and the state systems when it comes to whether they should divest from Big Oil and other fossil-fuel-dependent stocks. On one side of the debate are Mayor de Blasio and City Comptroller Scott M. Stringer, who are charting a course to divest from these companies. On the other side is State Comptroller Thomas P. DiNapoli. Come next year, that debate is likely to get hotter. Environmental activists have said they plan to target Mr. DiNapoli with protests to convince him to move toward divestment. “DiNapoli is in danger of becoming a real joke on the greatest issue of our age,” environmentalist and writer Bill McKibben told the *Daily News*. On the legislative front, State Sen. Liz Krueger and Assemblyman Felix Ortiz have announced plans to introduce legislation that would mandate that the state pension fund divest from the fossil-fuel companies. While some of the city’s public-employee unions, led by District Council 37 and the United Federation of Teachers, have expressed enthusiastic support for its divestment strategy, several unions are more reluctant to embrace the approach for fear of the impact on the long-term rate of return for the funds. “As fiduciaries on the pension fund, we want to act socially and economically responsible,” Jake Lemonda, president of the Uniformed Fire Officers Association, said in a phone interview earlier this year. “Many of these companies have performed well for our members and the trustees will have to take a good hard look at this. It can’t be done with the snap of the fingers.”

Don't Play Politics

Michael Carrube, president of the Subway Surface Supervisors Association, which represents 4,000-plus subway supervisors, was less diplomatic. “Our pensions are and should be protected from ambitious politicians who would try to use them as policy experiments or as part of some broad political agenda that ultimately affects our members and other working families,” he said. Mr. DiNapoli maintains that the state pension fund can be more effective in achieving major environmental goals by having a “seat in the boardroom” as an activist investor prepared to use shareholder resolutions to push for change from the oil companies. He pointed to last year’s win when the state helped lead a successful shareholder-resolution fight that directed Exxon to “analyze how worldwide efforts to adopt the Paris Agreement goals for reducing global warming might impact its business.”

A Complete Reversal

A year earlier that same resolution went down to defeat, with only 38 percent of Exxon's shareholders supporting it. Last year, 62 percent of the proxy-holders supported it. A similar shareholder-resolution strategy helped convince Dunkin Donuts to pledge to use only palm oil that's produced without a link to de-forestation. "Comptroller DiNapoli will continue to address climate risk, while holding to his priority of protecting the retirement security of New York's public workers," Matthew Sweeney, a spokesman for the State Comptroller, said in a phone interview. This month Mr. DiNapoli traveled to Poland to participate in the United Nations conference on climate change and announced a \$3-billion increase to the state pension fund's then-\$7 billion Sustainable Investment Program. Of that portfolio, \$4 billion is earmarked for low-emission equities. The remaining \$6 billion is spread across all asset classes that advance a "sustainable" economy but are not restricted to climate issues.

High International Rating

The Asset Owners Disclosure Project, based in London, rates and tracks the world's 100 largest public pension funds for their effectiveness in addressing climate change. AOPD ranks the state's pension fund as the best in the U.S., and third globally, in terms of addressing climate change. But boosters of fossil-fuel divestment think that continued investment in oil companies poses an unacceptable ecological risk, as well as economic liability for pensioners. "There seems to be this undercurrent that a lot of people who hear us talking about climate solutions think it some kind of leftist utopian view of the world, when in reality it is real," Henry Garrido, executive director of DC 37 and a pension trustee, said last year. "As trustees we did the responsible analysis and we looked at just what one degree of global warming would mean and what two percent means and what it would mean for our investments." On Dec. 18 Mr. de Blasio and Mr. Stringer announced their "next big step" in "divesting from fossil-fuel-reserve owners" was the release of a request for proposals to "recommend prudent fossil-fuel divestment strategies" for the city.

'Prudent Divestment'

The RFP will help chart a divestment strategy for the New York City Employees' Retirement System, the Teachers' Retirement System, and the Board of Education Retirement System, which represent 70 percent of the total assets of the City's \$200-

billion pension funds. "This analysis -- the first-of-its-kind of a pension fund of this size -- will inform the development of a comprehensive and prudent divestment strategy to preserve the retirement funds of city employees and address climate change risks, consistent with fiduciary duty," according to a joint statement put out by the Mayor and Comptroller. "Divestment is a critical part of our strategy to fight climate change while insulating our pension funds," Mayor de Blasio said in a statement. Mr. Stringer said, "Climate change poses an existential threat. But by moving towards a fossil-fuel-free investment strategy, New York City is planting the seed for a clean, green, and thriving economy that can truly support future generations."

Bob Hennelly, *The Chief*, December 26, 2018.

8. NASRA ISSUE BRIEF: COST-OF-LIVING ADJUSTMENTS:

Periodic cost-of-living adjustments (COLAs) in some form are provided on most state and local government pensions. The purpose of a COLA is to wholly or partly offset the effect of inflation on retirement income. Considerable variation exists in the way COLAs are designed, and in many cases they are determined or affected by other factors, such as the actual rate of inflation or the financial condition of the plan. COLAs add both value and cost to a pension benefit. Public pension COLAs have received increased attention in recent years as many states look to make adjustments to the cost of benefits amid challenging fiscal conditions and the current low-inflationary environment. This brief presents a discussion about the purpose of COLAs, the different types of COLAs provided by government pension plans, and an overview of recent state changes to COLA provisions. National Association of State Retirement Administrators (NASRA), December 2018.

9. DID YOU KNOW BENJAMIN FRANKLIN SAID THIS?:

Dost thou love life? Then do not squander time, for that is the stuff life is made of.

10. OXYMORONS:

Why do we say something is out of whack? What is a whack?

11. INSPIRATIONAL QUOTES:

When everything seems to be going against you, remember that the airplane takes off

against the wind, not with it. – Henry Ford

13. TODAY IN HISTORY:

On this day in 1991, Operation Desert Storm begins, with US-led coalition forces bombing Iraq, during the Gulf War. Iraq fires 8 Scud missiles on Israel.

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

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