



CYPEN & CYPEN NEWSLETTER for March 7, 2019

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

1. 2018 ANNUAL PENSION PLAN REPORT CARD C-PLUS:

Last year was a so-so year at best for most plan sponsors. For most of the year things looked good but by the end of 2018 there were few things to celebrate. The good news was that interest rates were up year-over-year, but, in December, rates gave up some of the year's increases and the claw back continued into the first few weeks of 2019. Volatile equity markets made for an overall bumpy ride, and again December proved to be a disaster. More than likely plan sponsor will see some funded status deterioration in 2018 largely driven by the December markets. The good news though is that equity markets have already started to rebound in 2019 (for now at least). This article looks at and grades the various drivers of pension plan funded status that occurred in 2018. When plan sponsors pull these factors together they will find opportunities in 2019 to manage volatility, and execute pension risk transfers to lower plan risk and cost. Finally, with the

looming sunset of funding relief sponsors will want to have an eye towards future cash calls.

Market / Investment Performance: D

Risk assets (e.g. equities) started the year strongly. However, volatility ensued quickly with concerns over monetary policy, inflation fears, geopolitical concerns, and signs of economic slowdown across the globe. Ultimately, most global markets ended the year in negative territory and December ended up being the worst month for U.S. stocks since the Great Financial Crisis. The year ended with the S&P 500 down 4.4%. Developed international equities (MSCI EAFE Index) were down almost 14% and emerging market equities were down about 15%. An appreciating dollar weighed on international markets and particularly emerging markets. Bond portfolios had poor returns this year as rising rates reduced values. U.S. Treasury interest rates increased. The interest rate curve flattened during the year; short term rates increased more than the long end of the curve as the Fed increased the federal funds rate four times. Consequently, the 3 month rate increased by over 1%, while the longest part of the curve (the 30 year treasury rate) increased by only 0.3%. Volatility also increased in the bond markets and credit spreads widened. This led to higher quality fixed income outperforming lower quality bonds. Intermediate duration bonds ended 2018 flat. High yield and emerging market debt decreased -2.1% and -2.5%, respectively. Long duration corporate bonds decreased approximately 7% and long duration U.S. Treasuries decreased almost 6%. Plan sponsors with the traditional 60% equity/40% aggregate fixed income portfolios generally saw their portfolios return down about 5%, while those with 60% equity/ 40% liability matching bonds would have seen their portfolios return down even further around 8%.

Interest Rates (Accounting): B+ (higher than last year)

From the start of 2018, high-quality corporate bond rates that are used for valuing liabilities for accounting purposes were on the climb. This climb continued throughout the year reaching peak levels in October and November. At that point in time discount rates had effectively increased close to 0.85% year-to-date. These rates were just slightly below the 5-year high for discount rates that we saw in the early months of 2014. Unfortunately, with the market turmoil in December, rates made a sharp decline pulling back around 0.20% by year-end. Even with the decline in December, on the whole 2018 was a great year for plan sponsors with discount rates generally up around 0.65%. While a 0.65% rise in rates might normally earn a low A, December's pull back makes us a tough grader.

Interest Rates (Funding): C (once again they've come down)

The underlying yield curve used in determining minimum funding interest rates made a parallel shift down from the yield curve as of the end of 2017. Because of the 10% corridor

around the 25-year historical average interest rates continues to be in effect, the actual segment rates for calculating minimum funding liabilities are still above the yield curve levels. That said, as in prior years, the 24-month average segment rates with the corridor constraint are down from the beginning of 2018. In general this decline in the segment rates will produce an effective rate that is about 0.20% lower for 2019 and leave sponsors with higher minimum funding liabilities all else equal.

Mortality Assumptions: B (lower liabilities again)

Similar to the last four years, the Society of Actuaries (SOA) published an updated mortality improvement projection scale in the fall of 2018. The update comes as a result of updated data included in their model along with model methodology tweak meant to produce more stable results over time. What this update means is that sponsors can expect lower accounting liabilities on the order of 0.2% - 0.6% depending on the demographics of their participants.

Legislative: B (status quo once again)

While there have been several proposals floating around Congress that would affect pension plans, there was once again no major legislation passed during the year. The legislation that has been discussed would have fairly insignificant implications for corporate pension plan sponsors with maybe the most impactful being a raise in the mandatory cashout threshold.

Pension Risk Transfers: A (another record year for insurers)

Once again, the annuity buy-out market continued its exponential growth with 2018 premiums expected to be around \$27B. This is up from the record year in 2017 with \$23B in premium sales. One of the more significant transactions of the year was the \$6B FedEx deal that landed in Q2. Through this transaction FedEx transferred the benefit obligations of approximately 41,000 retirees and beneficiaries to MetLife. 2019 has already started off with a bang with Lockheed Martin announcing two transactions totaling \$2.6B (\$1.6B buy-out and a \$800M buy-in), and Weyerhaeuser offloading \$1.5B. The annuity purchase market will continue to provide opportunity to plan sponsors looking to shrink the size of their pension plan and subsequently reduce administrative costs and potential funded status volatility. Pricing is still very attractive with most retiree only deals coming in around the accounting liability for sponsors that use realistic assumptions for mortality and discount rates.

Thoughts Going Into 2019:

- **Funded status volatility control** - With many plan sponsors grappling between

the trade-off of interest rate hedging and equity return, managing funded status volatility in today's market environment will prove challenging. As we discussed during 2018, there are strategies that plan sponsors should consider to limit their overall funded status volatility through the use of equity derivatives and liability matching assets. These strategies, when designed appropriately, can help sponsors manage interest rate risk along with equity risk for more predictable funded status outcomes (see [Pension Investing - Next Generation of Glide Paths](#)).

- **Shrink-the-ball opportunities (AKA Pension Risk Transfers)** - 2019 is currently a good year to consider a lump sum cashout window for vested terminated participants. For most plans, the rates that apply for calculating lump sums will be based on rates as of last fall when they were at close to 5-year highs. With rates pulling back so far in 2019, the difference in lump sum payouts and balance sheet liabilities should prove favorable to plan sponsors.
- **Keep your eye on future cash calls** - We only have a couple of years left on the interest rate funding relief for minimum funding purposes. As that corridor starts to expand in 2021, sponsors could see dramatic increases in required contributions starting in 2022 (due to contribution timing rules). It is extremely important that plan sponsors understand how much their contributions could increase and adequately prepare for those increases in their future budgets.

Conclusion

The poor investment returns suffered by most plan sponsors in 2018 more than offset the reduction in liabilities due the rise in corporate rates. But higher rates have created opportunities for sponsors who want to continue to lower the risk and cost of their plans in 2019. Michael Clark and Justyna Mietelska, River and Mercantile Solutions, February 25, 2019.

2. JOBS WITH THE MOST OPENINGS IN EACH U.S. STATE:

Some job fields are growing particularly quickly in certain U.S. states, and some gigs are in higher demand across the country. Food preparers had the most job openings in 20 different states, including Utah, Illinois, Pennsylvania, Arkansas, Mississippi, and Rhode Island. A formal education generally isn't required for these positions, and workers earn an average of \$10.93 an hour or \$22,730 a year. By 2026, the industry is expected to grow by 8%, on par with the national average. Cashiers are also in need across the country. There are 16 states most in need of cashiers, such as Connecticut, Louisiana, Iowa, Arizona, and Delaware. Like food preparers, most cashiers don't need any kind of formal education. They see a median annual salary of \$21,030, which translates to about \$10.11 an hour. Using data from the Bureau of Labor Statistics (BLS) and projections from the government-backed Projections Managing Partnership (PMP), Yahoo Finance put

together a map of the jobs with the most openings in 2019:

Several states on the East Coast are seeking retail salespersons. New York, New Jersey, Maine, Massachusetts, and Florida are all in search, along with Hawaii and Alaska. Retail workers earn a median hourly pay of \$11.24 per hour, though some companies recently raised their minimum wages for these workers. In 2018, Walmart (WMT) raised its minimum hourly wage to \$11, while Target (TGT) upped its to \$12 and pledged to reach \$15 by 2020. In California, New Mexico, and West Virginia, personal care aides are in high demand. BLS defines these workers as those who “help people with disabilities, chronic illnesses, or cognitive impairment by assisting in their daily living activities. They often help older adults who need assistance.” The job field is projected to grow up to 41% by 2026, which is much faster than the national average.

‘We’ve got to pay professional drivers what they’re worth’

Truck drivers are in luck in North Dakota. Heavy and tractor-trailer truck drivers transport goods through intercity routes and earn an hourly median pay of \$20.42. Delivery truck drivers earn about \$14.06 an hour. Generally, the U.S. is still seeing a shortage of truck drivers across the country. In order to combat the shortage of truck drivers, Walmart recruited many by changing its hiring process, including offering \$1,500 referral bonuses. “We’ve got to pay professional drivers what they’re worth to continue attracting the best,” Brian Fielkow, CEO of transportation company Jetco, previously told Yahoo Finance. “That’s just the starting point. We have a lot of work to do as an industry to bring people back into the trucks.” Adriana Belmonte, Yahoo Finance, February 25, 2019.

3. UNDERSTANDING SOCIAL SECURITY SPOUSE’S BENEFITS:

Marriage is a cultural institution that exists all over the world. Having a partner means sharing many things including a home and other property. Understanding how your future retirement might affect your spouse is important. When you’re planning for your fun and vibrant golden years, here are a few things to remember:

Your full spouse’s benefit could be up to 50 percent of your spouse’s full retirement age amount if you are full retirement age when you take it. If you qualify for your own retirement benefit and a spouse’s benefit, we always pay your own benefit first. You cannot receive spouse’s benefits unless your spouse is receiving his or her retirement benefits (except for divorced spouses). If you took your reduced retirement first while waiting for your spouse to reach retirement age, when you add spouse’s benefits later, your own retirement portion remains reduced which causes the total retirement and spouses benefit together to total less than 50 percent of the worker’s amount. You can find out more on our [website](#). On the other hand, if your spouse’s retirement benefit is

higher than your retirement benefit, and he or she chooses to take reduced benefits and dies first, your survivor benefit will be reduced, but may be higher than what your spouse received. If the deceased worker started receiving reduced retirement benefits before their full retirement age, a special rule called the retirement insurance benefit limit may apply to the surviving spouse. The retirement insurance benefit limit is the maximum survivor benefit you may receive. Generally, the limit is the higher of:

- The reduced monthly retirement benefit to which the deceased spouse would have been entitled if they had lived, or
- 82.5 percent of the unreduced deceased spouse's monthly benefit if they had started receiving benefits at their full retirement age (rather than choosing to receive a reduced retirement benefit early).

Knowing how your finances affect your spouse's can help both of you avoid future impacts on your incomes. When it comes to information, we have over 80 years of experience. Access a wealth of useful information by visiting our [benefits planners](#). Jim Borland, Acting Deputy Commissioner for Communications, Social Security Administration, January 24, 2016.

4. WHOM TO CONTACT: SOCIAL SECURITY OR MEDICARE?

Sometimes it's confusing to know whom to contact and for what. Social Security and Medicare offer related services, so people aren't always certain who does what. This "cheat sheet" can help.

Contact Social Security to:

- See if you're eligible for Medicare;
- Create a *my Social Security* account to do things like request a replacement Medicare card and report a change of address, name, or phone number;
- Sign up for Medicare Part A (Hospital Insurance) and Medicare Part B (Medical Insurance);
- Apply for Extra Help with Medicare prescription drug coverage (Part D) costs;
- Report a death; and
- Appeal an Income-Related Monthly Adjustment Amount (IRMAA) decision (for people who pay a higher Part B and/or Part D premium if their income is over a certain amount).

Find information on how to do all of this and more on Social Security's [Medicare](#) website.

Contact Medicare to:

- See what services Medicare covers;
- Get detailed information about Medicare health and prescription drug plans in your area, including costs and services;
- Choose and enroll in a Medicare health or prescription drug plan that meets your needs;
- Find a Medicare Supplement Insurance (Medigap) policy in your area;
- Find doctors, health care providers, and suppliers who participate in Medicare;
- Get information and forms for filing a Medicare appeal or for letting someone speak with Medicare on your behalf;
- Compare the quality of care provided by plans, nursing homes, hospitals, home health agencies, and dialysis facilities; and
- View Medicare publications.

Visit the [Medicare](#) website for more information on these services. If you need to find out your claim status, find out deductibles, or get answers to premium payment questions, you can call 1.800.MEDICARE (1.800.633.4227; TTY: 1.877.486.2048). Determining who to contact is the first step in getting the answers you need. Please share these lists with family and friends who need to know more about Social Security and Medicare. Darlynda Bogle, Acting Assistant Deputy Commissioner, Social Security Administration, February 28, 2019.

5. PUBLIC UNION DUES FIGHTS PERSIST:

Last year, the US Supreme Court made waves when it ruled public employees generally [cannot be forced to pay union dues](#). The immediate aftermath of the decision gave rise to a [myriad of legal disputes](#), and those disputes persist. For example, the National Right to Work Foundation ([NRTWF](#)) [recently announced](#) that public employees in Michigan filed a class action against a union in that state for potentially unlawful attempts to force or coerce them into paying union dues. According to the press release:

“Even after Michigan enacted its popular Right to Work Law protecting workers from being forced to pay union dues or fees as a condition of employment, union officials continued to harass and threaten two public school employees in attempts to illegally extract forced union fees from them. After years of union bosses’ intimidation tactics, [the employees] filed a federal class action lawsuit, with free legal aid from Right to Work Foundation staff attorneys, to enforce their First Amendment protections under the Foundation-won *Janus v. AFSCME* decision. Their lawsuit demands that union officials stop the harassment, including the use of debt collectors, and refund dues illegally obtained from potentially

thousands of other victims.” Shortly after launching the lawsuit, it appears the union caved and [agreed to cease](#) its potential unlawful actions. It will be interesting to see if unions continue to push the envelope despite clear pronouncements that forced union dues in the public sector generally are no longer permitted. Stay tuned.

David Pryzbylski, Barnes & Thornburg LLP, Lexology, February 22 2019.

6. GET YOUR SOCIAL SECURITY BENEFIT STATEMENT (SSA-1099):

Tax season is approaching, and Social Security has made replacing your annual Benefit Statement even easier. The Benefit Statement is also known as the SSA-1099 or the SSA-1042S. Now you can get a copy of your 1099 anytime and anywhere you want using our online services. A Social Security 1099 is a tax form Social Security mails each year in January to people who receive Social Security benefits. It shows the total amount of benefits you received from Social Security in the previous year so you know how much Social Security income to report to the IRS on your tax return. If you live in the United States and you need a replacement form SSA-1099 or SSA-1042S, simply go online and request an instant, printable replacement form through your personal [my Social Security](#) account. A replacement SSA-1099 or SSA-1042S is available for the previous tax year after February 1. If you already have a *my Social Security* account, you can log in to your online account to view and print your SSA-1099 or SSA-1042S. If you don't have access to a printer, you can save the document on your computer or laptop or even email it. If you don't have a *my Social Security* account, creating one is very easy to do and usually takes less than 10 minutes. If you receive benefits or have Medicare, your *my Social Security* account is also the best way to:

- Get your benefit verification letter;
- Check your benefit and payment information;
- Change your address and phone number;
- Change your direct deposit information;
- Request a replacement Medicare card; or
- Report your wages if you work and receive Social Security disability insurance or Supplemental Security Income (SSI) benefits.

If you're a noncitizen who lives outside of the United States and you received or repaid Social Security benefits last year, we will send you form SSA-1042S in the mail. The forms SSA-1099 and SSA-1042S are not available for people who receive Supplemental Security Income (SSI). With a personal *my Social Security* account, you can do much of your business with us online, on your time, like get a copy of your SSA-1099 form. Visit [our website](#) to find out more. Jim Borland, Acting Deputy Commissioner for Communications, Social Security Administration, February 22, 2019.

7. CALPERS'S BOARD ADOPTS NEW COMPENSATION PACKAGE:

CalPERS's board adopted a new compensation package that increases salaries, retains or increases annual incentives depending on the position and introduces a long-term incentive program. For example, investment managers would receive annual incentives of up to a target of 40% and a maximum of 60% and long-term incentives of 40% of their salaries. Investment managers' annual incentive targets had varied between up to 30% and up to 50% of salary with maximum annual incentives of 45% to 75% of salary. The chief operating investment officer would receive an incentive of up to 75% and a long-term target of 50% of salary. That position had an annual incentive target of 40% of salary. The position of chief operating investment officer has been vacant since January when Elisabeth Bourqui resigned. Separately, at CalPERS's investment committee meeting, CalPERS's CIO Yu Ben Meng made it clear that any additional transparency offered by its new private equity investment model would be shared internally and not with the public. The private equity investment model includes two entities -- now limited liability companies -- set up by but not owned by the \$354.7 billion California Public Employees's Retirement System, Sacramento. During Mr. Meng's presentation, he told the investment committee that the goal of the two private equity vehicles is to achieve "more investment capabilities in private equity as an asset class with the objective to achieve the scale and then to improve transparency, improve control and reduce costs." But, he added, "the improved transparency is to improve the transparency of CalPERS. The general public will get exactly the same level of transparency as they do now." The public would not receive information on the salaries of the executives hired for the separate entities or the operating costs CalPERS would pay so the public can compare those to the cost CalPERS is paying for the current, primarily commingled fund, model, noted former board member JJ Jelincic during a public comment period. Indeed, when board members raised questions about the two outside entities' transparency and cost, investment committee Chairman Bill Slaton deferred the matters to closed session. During discussions, board member Margaret Brown asked about transparency and the cost of CalPERS's current private equity program. Ms. Brown said she did a random check of four private equity investments made under the staff's delegated authority and CalPERS did not pay the standard private equity rate of 2% management fee and 20% carried interest. Mr. Slaton said those issues should be discussed in closed session. When Ms. Brown shared her view that the partnership or management agreements be made public as "the best guarantee CalPERS can have that we're not going to get snookered like we did in other previous investment ownerships," she was again told to wait until closed session. Later board member and California state Controller Betty T. Yee also asked about the governance of the private equity investment model. "This is critical, ... but to me this is a big decision for this board. We have a fiduciary responsibility, but we're going to be really

placing that responsibility on an outside entity, for the most part, under this model," Ms. Yee said during an investment committee meeting. "So what I'm trying to get at is, I guess, what's our ongoing responsibility, the board? ... How do we know that that governance is always going to be aligned with us?" Again, Mr. Slaton said these issues should be discussed in closed session. Arleen Jacobius, *Pensions & Investments*, February 21, 2019.

8. SUPREME COURT REAFFIRMS STATES CANNOT DISCRIMINATE AGAINST FEDERAL RETIREES:

The Supreme Court issued a ruling with potentially far-reaching impacts for former federal employees, finding they should not face disparate tax treatment compared to their state counterparts. In an unanimous [decision](#), the court said it had "little difficulty" ruling in favor of a U.S. Marshals Service retiree who sued the state of West Virginia for violating the 1939 Public Salary Tax Act. West Virginia violated the law and the related intergovernmental tax immunity precedent, the court ruled in *Dawson v. Steager*, in making the annuities of certain state law enforcement officers tax free but not granting the same benefit to James Dawson, the Marshals retiree. The state law "unlawfully discriminates against Mr. Dawson," the court said in an opinion authored by Associate Justice Neil Gorsuch. There is no discernable difference between the job performed by Dawson and the state employees enjoying the tax benefit, Gorsuch wrote. The court also found West Virginia's argument that it was only trying to help state law enforcement retirees and not harm federal retirees to be immaterial. "We can safely assume that discriminatory laws like West Virginia's are almost always enacted with the purpose of benefiting state employees rather than harming their federal counterparts," Gorsuch wrote. "Yet that wasn't enough to save the state statutes in [previous cases] and it can't be enough here." Dawson won an initial suit in a West Virginia state court, but the state's Supreme Court of Appeals reversed the decision. The state did not intend to place federal employees at a disadvantage and the scope of people benefiting from the state's tax laws is narrow, the appeals court said. The federal Supreme Court rejected that argument, finding that the scope of beneficiaries had no bearing on the applicability of the law. The relevant tax law banning discrimination against federal employees "codifies a legal doctrine almost as old as the nation," Gorsuch said. Prior to the decision, observers said the case could have opened the floodgates to states treating federal retirees disparately if the court ruled against Dawson. "The Supreme Court's ruling in *Dawson v. Steager* will determine whether federal retirees throughout the country will be subject to a different set of state tax rules than their state government counterparts," Richard Thissen, then president of the National Active and Retired Federal Employees Association, said last year. He added that state governments cannot be given free rein to start carving out federal workers from tax exemptions because if they are, "More and more states will follow

the lead of West Virginia, and one exemption after another will be granted to differing classes of state government retirees." The precedent that federal retirees and their spouses be treated the same as state government retirees, Thissen added, would "face a death by a thousand cuts." John Hatton, NARFE's deputy legislative director, said his organization was pleased with the decision, but not surprised by it. The new precedent will ensure tax laws are applied equitably to state and federal employees and retirees, he explained, even in cases with narrow applications. "It should stop states from trying to carve out one exemption after another," Hatton said, adding such an outcome would lead to states "shifting the tax burden to federal employees and retirees." The case was also noteworthy because the Justice Department, then under the leadership of Attorney General Jeff Sessions, filed an *amicus curiae*, or friend of the court brief, in support of Dawson. Federal law, members of the solicitor general's office and other department attorneys wrote, prohibited West Virginia from providing tax exemptions for its own employees without also extending them to federal workers. "The United States has a substantial interest in ensuring that its employees and retirees receive equitable tax treatment from the states," the Justice officials wrote. A state violates the requirement that it enforce tax laws without discrimination "when it imposes more burdensome taxation on those who deal with the federal government (including federal retirees), because of their federal status, than on similarly situated persons who deal with the state." The Trump administration's filing was a rare display of support on behalf of federal retirees, as the White House has repeatedly put forward proposals to slash their benefits. The administration has said it will push to do away with federal employees' pensions altogether. Eric Katz, Government Executive, February 20, 2019.

9. THE CRITICAL ABC'S OF FINANCIAL ANTITRUST LITIGATION & RECOVERY OPPORTUNITIES:

Investors have filed many lawsuits in recent years alleging that Wall Street banks and related entities have unlawfully colluded to rig financial and commodities markets to benefit themselves and harm investors. Filed primarily under federal antitrust laws, these cases continue to generate substantial settlements, over \$5.8 billion to date, largely because of the banks' brazen behavior across such a wide array of financial markets. In addition to providing monetary recoveries to investors, these lawsuits also seek to curtail the banks from overcharging investors in the largest and most important financial markets.

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ISS Securities Class Action Services and Cohen Milstein Sellers & Toll, February 18, 2019.

10. FURLOUGHED WORKERS WITHDREW FROM RETIREMENT FUND; STUDY:

More than one quarter of the 800,000 federal employees who were affected by the federal government shutdown withdrew money from their retirement funds to help make it through the 35 days in which they did not see a paycheck, according to a Prudential study. In addition, four in 10 of these federal workers borrowed money from family or friends, while 20 percent took out a bank loan to help tide them over. The study results underscored the need for workers of all types to have an emergency savings account, or to add more funds to an existing account, said Jill Perlin, vice president of Prudential's advanced markets group. Perlin was not surprised at the percentage of workers who took money from their retirement accounts. "Besides your home, your retirement nest egg is generally your largest single asset," Perlin told InsuranceNewsNet. "So, unfortunately, it becomes the most obvious place for people to go in a situation like this. And then what happens is, you lose that compounding, that tax deferral, that growth that we've seen over so many years. When you take that money out, it's startling what that effect can be over the longer term." Not all government workers were affected equally by the shutdown, the Prudential study showed. Fifty-nine percent of survey respondents who self-identified as caregivers said they were "much more stressed" by the government shutdown, compared with 45 percent of non-caregivers. Caregivers were defined as someone regularly providing care and support for a child with special needs, or a sick, elderly or disabled member of their family. Also, caregivers were more likely than non-caregivers, by an average of about 10 percentage points in each case, to have seen their household income drop by at least half during the shutdown, to see their debt go up, to miss a mortgage or rent payment, to borrow from their retirement savings, or to fall behind on their student loans. Fifty-six percent of Hispanics and 53 percent of blacks had emergency savings of \$1,000 or more, versus 64 percent of whites. Thirty-two percent of black respondents used all their emergency savings during the shutdown, versus 25 percent of whites and 21 percent of Hispanics.

'Less Overwhelming'

Women also were less likely to have an emergency savings account of \$1,000 or more heading into the shutdown (53 percent, versus 68 percent of men), and were more likely to have borrowed from family or friends during the shutdown (46 percent, versus 33 percent of men). But although so many workers reported financial hardship as a result of the shutdown, Perlin said she believes the effects will be short-lived now that everyone has returned to work. "Once people can get back on their feet, if they can get back to where they are putting money back into their plan again and they see their account balance going back up, I think they will feel like it's less overwhelming than when they were furloughed," she said. "I think people will be able to rebound." The silver lining in this scenario, the study found, is that workers are more aware of the importance of having an

emergency fund. Fifty-two percent of the federal workers and spouses who were surveyed said they plan to add more money to their existing emergency funds. Ten percent who don't have emergency savings funds plan to start them. Advisors also can learn something from the shutdown, Perlin said. "Stay in touch with your clients; ask 'How are you doing? Is there something going on in your life that we need to make sure we're taking care of?'"

Susan Rupe, Insurancenewsnet.com, February 14, 2019.

11. N.J. PUBLIC-WORKER PENSIONS PAID \$670M TO INVESTMENT MANAGERS LAST YEAR:

The pension fund for public workers in New Jersey paid more than \$400 million in fees and \$268 million in bonuses to investment managers in the fiscal year that ended in June, according to an [annual report](#) of the State Investment Council. The pension fund's payments to outside investment managers -- and in particular those who manage the state's alternative investments -- have drawn lots of attention in recent years. In 2015 and 2016, rising costs ignited a hot debate within the council, which manages the state's \$72.1 billion pension fund. Labor leaders argued the pension system overpaid for not-so-remarkable investment returns while professional investors said the fund would be worse off without their work. The council [slashed](#) its stake in hedge funds as a step toward compromise and the state improved its reporting of these fees and bonuses. This latest report shows the fund spent \$670.3 million on fees and performance allocation bonuses in the fiscal year that began on July 1, 2017, and ended on June 30, 2018. The pension system paid just \$11.6 million for the investments managed in-house by staff at the Division of Investment. The pension fund returned 9.06 percent during that fiscal year. Nine out of 10 dollars of management fees and expenses stem from the state's \$24.4 billion alternative investment program. Alternative investments include private equity funds, real estate funds, real asset funds, opportunistic funds, hedge funds and diversified global credit funds. That \$363.1 million in alternative investment expenses is \$29.1 million less than the fund paid out the prior year. Bonuses paid to alternative investment managers were down slightly year-over-year, too. Investment managers earn bonuses when their investments perform better than a predetermined target. The higher the return, the higher the bonus. These bonuses were \$267.9 million last fiscal year, down \$5.9 million from the year before. Alternatives returned 11.9 percent and generated \$2.7 billion for the pension fund in the last fiscal year, with the strongest returns in private equity and real assets, according to the report. Bonuses paid to private equity managers -- \$145.6 million -- accounted for 54 percent of all bonuses, which the report says is a reflection of the strong performance. Cory Amon, deputy director of the Division of Investment, cautioned at a State Investment Council meeting last week against comparing New Jersey's reported figures against other state. "Both the division and the council have

shown a strong commitment to transparency in reporting fees ... From our experience, we tend to show more detail than many of our peers. We still very much think that that's the right thing to do, but at times it can be frustrating when our information is compared to some other funds that don't necessarily include the same details that we do." Acting council Chairman Adam Liebttag, who helped the charge for a reduction in alternative investments, thanked the Division of Investment on Wednesday for heeding members' concerns about transparent reporting of fees and bonuses. Samantha Marcus, NJ.com, February 4, 2019.

12. FINDING VALUE IN THE CORPORATE BOND MARKET:

Investment-grade bonds have historically offered a safe haven for institutional investors when the market starts swinging, but this year, the sector hasn't fared much better than other asset classes. In fact, investment-grade bonds are poised for one of their worst years since the financial crisis. There are plenty of factors contributing to the losses. In addition to dealing with continued interest rate increases by the Federal Reserve, which have pressured yields, bond investors have also faced supply-related pressures from repatriation issues created by tax reform in the first quarter, continued mergers-and-acquisitions activity and an increase in BBB-rated bonds. All of that has created a volatile market that has some market watchers predicting that the end of the bull market in bonds is near. But for smart investors and those willing to take on some risk, opportunities are out there, according to [Manulife Asset Management](#) bond fund managers. "It hasn't been the easiest of markets, but we're a bottom-up manager, so we're able to find things that work," said Howard Greene, head of the U.S. core and core-plus fixed-income strategies at Manulife Asset Management. "The 10-year Treasury yield is at the highest level it's been since 2011. You take that factor, along with some wide spreads, and it's not the worst time to be putting money into fixed income. There is value relative to other asset classes."

Cycle May Have 'A Few More Years'

There are signs that the cycle is closer to its midpoint than its end, said Jeff Given, a senior managing director and senior portfolio manager at Manulife Asset Management. While the Fed funds rate has been moving upward, the trajectory has been slow, inflation has held steady around 2% and unemployment remains low. "We should still have a few more years, at least a few more quarters, of this cycle paying out," he said. "Maybe the earnings growth isn't as high as it was before, but you still have some good fundamentals supporting corporate credit and overall economic activity." The current market is more of a "coupon-clipping" environment for smart corporate debt investors, Greene said, with the bulk of income coming from the carry rather than from spread compression. But that doesn't mean that it's going to be a smooth ride. There is likely to be heightened volatility

in the markets across all asset classes, especially compared with the low-volatility markets of the past few years. "It's important to keep that longer-term view of things, so you're not getting whipsawed around as markets change on a day-to-day basis," Given said.

Comparison To 2003-2007

The higher yields and wider spreads of today's market feel similar to the market of late 2003 to mid-2007, when the Fed pushed the Fed funds rate from 1% to 5.25% but investment-grade credit spreads oscillated in a fairly narrow band, according to Greene, who said it's unlikely that the interest rate will go that high. Indeed, Greene said he feels comfortable with the cost of investment-grade debt today, expecting that credit spreads will be similar to that earlier period after adjusting for the higher percentage of BBB-rated corporate bonds in the current market. "Looking at that market [from 2003 to 2007], valuations seem to be appropriate for this point of the cycle," Greene said. "We've been trading in that band all year, and we expect it to continue. It will likely ebb and flow on perceptions of valuation." Of course that market led into the Great Recession, but Greene said he believes that "can't and won't" happen this time around for several reasons. The cost of debt is much lower, companies are generally in better shape to handle the debt loads they have and many have opted for longer-term debt. In addition, many companies have strengthened their balance sheets in recent years. Bank balance sheets, in particular, are much stronger than they were a decade ago, and there are financial regulations and guardrails in place now that didn't exist then. Plus, hedge funds, have derisked significantly, and many of those that took the largest risky bets have closed up entirely. "We also don't have that identifiable bubble today that we had leading into 2008," Greene said. "There's no housing bubble. There's no excessive valuation in the equity market. There's no huge piece of the economy that's been over-levered and over-valued and securitized across the whole spectrum." When the next recession does come, it is likely to be more of a traditional recession, like the one that occurred in 2002, rather than a systemic recession that shuts down the entire system, Given added.

Limited Risk From Rising Rates

With that backdrop, Greene suggested that institutional investors should not be too concerned about rising rates, particularly as they relate to corporate bonds. "For a value- or a yield-based investor, we should be much happier with the 10-year at 3.10 or 3.15 than when it was sub-2%," he said. "We're getting a better real rate of return, and there's better valuation out there. If you look at the yield for the corporate market, it's at 4.38%. That's the best yield we've seen since mid-2010. You're getting a much better return profile now than we've seen for a long time." While they anticipate a December rate hike, Greene and Given said they believe there's a chance the Fed will pull back on the expected hikes next year. Still, the volatility in the market makes it even more vital to find

managers who know what they're doing and where to look for value. While declining to cite specifics, Given said they continue to like the financial space and they're taking another look at mortgages. They've been underweight in mortgage investments in recent years, but that could change as the Fed continues to unwind or reduce its balance sheet. "There are certain sectors where we see a steep yield curve," Given said. "You can find opportunities. This is where the active management can add some value. It's not as easy to just blindly allocate to investment-grade credit going forward, but we feel you can add some incremental revenue from active management. We can typically discern between credit that's at real risk of a downgrade versus a credit spread that's widening and take advantage of the market."

Pensions & Investments, December 10, 2018.

13. DID YOU KNOW BENJAMIN FRANKLIN SAID THIS?:

A penny saved is a penny earned.

14. PONDERISMS:

Why do you have to "put your two cents in"... but it's only a "penny for your thoughts"?
Where's that extra penny going? (taxes)

15. POSERS:

Intentionally losing a game of rock, paper and scissors is just as hard as trying to win.

16. INSPIRATIONAL QUOTES:

Change your thoughts and you change your world. – Norman Vincent Peale

17. TODAY IN HISTORY:

On this day in 1876, Alexander Graham Bell receives a patent for the telephone in the US.

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

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