



CYPEN & CYPEN NEWSLETTER for March 21, 2019

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

1. WHY SOCIAL SECURITY RETIREMENT IS IMPORTANT TO WOMEN:

Social Security plays an especially important role in providing economic security for women. In the 21st century, more women work, pay Social Security taxes and earn credit toward monthly retirement income than at any other time in our nation's history. But, women face greater economic challenges in retirement. Women:

- tend to live longer than men. A woman who is 65 years old today can expect to live, on average, until about 87, while a 65-year-old man can expect to live, on average, until about 84;
- often have lower lifetime earnings than men; and
- may reach retirement with smaller pensions and other assets than men.

Social Security offers a basic level of protection to all women. When you work, you pay taxes into the Social Security system, providing for your own benefits. In addition, your spouse's earnings can give you Social Security coverage as well. Women who don't work are often covered through their spouses' work. When their spouses retire, become disabled or die, women can receive benefits. If you're a worker age 18 or older, you can get a *Social Security Statement* online. Your *Statement* is a valuable tool to help you plan a secure financial future, and we recommend that you look at it each year.

Your *Statement* provides a record of your earnings. To create an account online and review your *Statement*, visit our [website](#). If your spouse dies, you can get widow's benefits if you're age 60 or older. If you have a disability, you can get widow's benefits as early as age 50. Your benefit amount will depend on your age and on the amount your deceased spouse was entitled to at the time of death. If your spouse was receiving reduced benefits, your survivor benefit will be based on that amount. You may be eligible for widow's benefits and Medicare before age 65 if you have a disability and are entitled to benefits. You also may be eligible for benefits if you are caring for a child who is younger than 16. Our "People Like Me" website [for women](#) has valuable resources for people of all ages. To read more about how we can help you, read and share the publication [What Every Woman Should Know](#). Jim Borland, Acting Deputy Commissioner for Communications, Social Security Administration, March 7, 2019.

2. TAXPAYERS MUST REPORT HEALTH CARE COVERAGE ON 2018 TAX RETURN:

As taxpayers are completing their 2018 tax returns this year, they must complete the lines related to health care. For tax year 2018, the IRS will not consider a return complete and accurate if individuals do not do one of the following on their return:

- Report full-year health coverage
- Claim a coverage exemption
- Report and make a shared responsibility payment for everyone on the tax return

The law continues to require taxpayers who do not qualify for an exemption to maintain health care coverage in 2018 or make a shared responsibility payment when they file their tax return. Most taxpayers have qualifying health coverage or a coverage exemption for all 12 months in the year and will check the box on the front of their tax return. Taxpayers who can check the box don't have to file Form 8965, Health Coverage Exemptions, to claim any coverage exemptions. This includes the coverage exemption for household income below the filing threshold. Taxpayers who did not have coverage for the entire year and therefore can't check the box generally must report a shared responsibility payment when they file. They will report this payment for each month that anyone listed on the tax return didn't have qualifying health care coverage or a coverage exemption.

Taxpayers can determine if they are eligible for a coverage exemption or are responsible for the individual shared responsibility payment by using the [Interactive Tax Assistant](#) on IRS.gov. In addition, taxpayers may be eligible for the premium tax credit if they purchased health coverage through the Health Insurance Marketplace. Anyone who needs health coverage can visit HealthCare.gov to learn about health insurance options that are available for them and their family. Under the Tax Cuts and Jobs Act, the shared responsibility payment is reduced to zero for tax year 2019 and all subsequent years. See [Publication 5307](#), Tax Reform Basics for Individuals and Families, for information about the shared responsibility payment for tax year 2019. Taxpayers can visit [IRS.gov/aca](#) for more information about the Affordable Care Act and filing a 2018 tax return. IRS Tax Tips, Issue Number: Tax Reform Tax Tip 2019-20, March 7, 2019.

3. A BAD MOVE ON PENSIONS:

They say there's no education in the second kick of a mule, but Oklahoma politicians appear ready to give it a try. That's the only way to explain lawmakers' vote financially to weaken state pension systems after years of hard-fought efforts to shore up those plans. Members of a House committee voted last week to provide a 2 percent cost-of-living increase in benefit payments to retirees in six state pension systems. The catch is that lawmakers didn't bother to pay for the increase. Instead, the legislation would increase state pension liabilities by about \$441 million. The pension systems for judges and police are more than 100 percent funded, so they can absorb the benefit increase without harm. But the systems for firefighters and teachers are only 68.1 percent and 72.9 percent funded, respectively. The actuarial liabilities of the teachers' retirement system exceed its assets by \$6.12 billion, and the 2 percent benefit hike would increase those liabilities by another \$243 million. The teachers' system is on pace to eliminate its unfunded liability in 14 years, but the House legislation extends that time frame to 15 years. Some might dismiss that as a minor inconvenience, but the problem is unfunded benefit increases can quickly become a habit in politics. If you doubt it, just look at Oklahoma's history. From 2000 to 2010, the unfunded liability of Oklahoma's state pension systems increased from \$6 billion to \$16 billion. Pension debt is a significant factor in the state's credit rating, so raising unfunded liabilities results in higher state costs elsewhere, such as infrastructure bonds. Reforms passed in 2011 reduced the unfunded liability by about \$5 billion, largely by requiring that cost-of-living adjustments be fully funded. Based on last week's committee vote, it appears Oklahoma politicians now look back at the pre-2011 era as a model of good financial management instead of a cautionary tale. Worse, the legislation takes the first step down a path blazed by the nation's worst-managed states, with Illinois the most prominent example. That state has enacted multiple tax increases and has one of the heaviest property tax burdens in the country, yet its unfunded pension liability continues to grow. Illinois didn't get into that mess all at once. Its politicians created the

financial morass one bad policy at a time. It's folly to think Oklahoma lawmakers can't do the same. Rep. Avery Frix, the Muskogee Republican leading the charge to increase the unfunded liability of state pensions, cites a retired teacher whose health insurance costs exceed the size of her pension check. Oklahoma politicians want retired teachers to know they care -- just not enough to actually pay for benefit increases, not enough to ensure the teachers' retirement system's long-term stability, and not enough to keep Oklahoma government on solid financial footing. Newsok, powered by The Oklahoman, March 3, 2019.

4. HISPANIC POVERTY RATE HIT AN ALL-TIME LOW IN 2017:

The poverty rate declined overall in 2017 but the rate among Hispanics had one of the largest year-to-year drops across demographic groups and was the lowest since poverty estimates for Hispanics were first published in 1972. Data from the Current Population Survey Annual Social Economic Supplement (CPS ASEC) showed the annual poverty rate in 2017 was 12.3 percent, a decline of 0.4 percentage points from 2016. Across the demographic groups included in the annual report [Income and Poverty in the United States: 2017](#), Hispanics had among the largest year-to-year decline in poverty rates, dropping down 1.1 percentage points to 18.3 percent from 2016 to 2017, according to the annual report [Income and Poverty in the United States: 2017](#). But for other races, including, blacks, non-Hispanic whites and Asians, there was no statistically significant change in the poverty rates in 2017 from the prior year. While the latest poverty rates among Hispanics are a historic low, Hispanics continue to be over represented among the population in poverty. They made up 18.3 percent of the total population in 2017 but accounted for 27.2 percent of the population in poverty.

Income and Characteristics

Among Hispanic origin households, inflation-adjusted median household income increased 3.7 percent in 2017, to \$50,486. This is the third consecutive year of poverty rate declines and median household income increases for Hispanics. Declines in poverty rates among Hispanics were concentrated among:

- Males (down 1.1 percentage points).
- The foreign-born (down 1.4 percentage points).
- Those living in the West (down 2.3 percentage points).
- Those residing outside metropolitan statistical areas (down 5.7 percentage points).

Poverty rates for Hispanic females, native-born Hispanics, and Hispanics living in regions outside the West or in metropolitan statistical areas were not statistically different from 2016. Ashley Edwards, Chief of Poverty Statistics Branch, United States Census Bureau,

February 27, 2019.

5. HERE'S HOW TAX REFORM AFFECTS TAXPAYERS WHO CLAIM THE CHILD TAX CREDIT:

Many people claim the child tax credit to help offset the cost of raising children. [Tax reform legislation](#) made changes to that credit for 2018 and later. Here are some important things for taxpayers to know.

Credit amount

The new law increases the child tax credit from \$1,000 to \$2,000. Eligibility factors for the credit have not changed. As in past years, a taxpayer can claim the credit if all of these apply:

- the child was younger than 17 at the end of the tax year
- the taxpayer claims the child as a dependent
- the child lives with the taxpayer for at least six months of the year

Credit refunds

The credit is refundable, now up to \$1,400. If a taxpayer doesn't owe any tax before claiming the credit, they will receive up to \$1,400 as part of their tax refund.

Earned income threshold

The income threshold to claim the credit has been lowered to \$2,500 per family. This means a family must earn a minimum of \$2,500 to claim the credit.

Phaseout

The income threshold at which the child tax credit begins to phase out is increased to \$200,000, or \$400,000 if married filing jointly. This means that more families with children younger than 17 qualify for the larger credit.

New credit for other dependents

Dependents who can't be claimed for the child tax credit may still qualify for the new credit for other dependents. This is a non-refundable credit of up to \$500 per qualifying person. These dependents may also be dependent children who are age 17 or older at the end of the tax year. It also includes parents or other qualifying relatives supported by the taxpayer.

IRS Tax Tips, Issue Number: Tax Reform Tax Tip 2019-15, February 27, 2019.

6. AMERICANS SAY LAWMAKERS DON'T UNDERSTAND DIFFICULTY IN PREPARING FOR RETIREMENT:

Eighty percent of Americans polled by the NIRS think the government should make it easier for employers to offer pensions, and more than half think the government needs to increase Social Security contributions from both employers and workers. Americans fear the nation faces a retirement crisis, with 80% of Democrats saying this is the case and 75% each of Republicans and Independents agreeing with this, according to a new report from the National Institute on Retirement Security (NIRS), "Retirement Insecurity 2019: Americans' Views of the Retirement Crisis." Overall, 75% of Americans say the nation faces a retirement crisis, and 58% are either very or somewhat concerned they will not be able to achieve a financially secure retirement. Fifty-six percent of Americans say it is getting harder to prepare for retirement. Asked what is impacting retirement in a negative way, 74% say it is the cost of health care in retirement, 66% say it is the rising cost of long-term care, 61% say Middle class workers' salaries are stagnant, 57% say increasing debt, and 57% say longevity. Additionally, 56% say fewer people have pensions, 51% say it is shifting the responsibility to save for retirement to the individual, and 37% say it is a more volatile stock market. Seventy-three percent say they do not have the financial skills to manage their money in retirement, and 79% say retirees don't know enough about investing to ensure their retirement savings last throughout retirement. Seventy-seven percent think employers should increase their matches to 401(k) plans, and 61% would sacrifice pay if it meant guaranteed income in retirement. Seventy percent say the average worker cannot save enough on his own to guarantee a secure retirement, and 65% expect they will have to work past retirement age. Roughly two-thirds of Americans believe that pension plans do a better job of preparing people for retirement than 401(k) plans. Eighty percent of Democrats, 81% of Republicans and 75% of Independents have favorable views towards pension plans. Seventy-seven percent think that people with pensions are likely to feel more comfortable retiring than those with individual savings. Eighty percent think the government should make it easier for employers to offer pensions. Eighty-two percent think police officers and firefighters deserve pensions because of the risky jobs they perform, and 74% think they deserve pensions because of the low pay they earn. Seventy-nine percent of Americans think all workers should have a pension, and 83% think pensions are a good way to attract workers to state and local jobs. Eighty-seven percent of Democrats, 81% of Republicans and 84% of Independents think Washington lawmakers don't appreciate how hard it is to save for retirement. Overall, 84% of Americans say leaders in Washington do not know how hard it is for Americans to save for retirement. More than half think the government needs to increase Social Security contributions from both employers and workers, and only 34% think the new tax law is improving their financial prospects. Seventy-one percent of Americans think that state-based retirement plans are a good idea, and 74% say they would participate in such

plans. Millennials are the most worried about a financially secure retirement (72%) and is the generation most willing to put away more money now for retirement (60%). They are also the generation most likely to believe they will have to work past normal retirement age (77%). More than half of Millennials are willing to save half or more of their salary-- more than double the response from Baby Boomers and Generation X. Greenwald & Associates conducted the online survey of 1,250 adults for NIRS in January. The full report can be downloaded [here](#). Lee Barney, Plansponsor, February 26, 2019.

7. SUPREME COURT LIMITS POLICE POWERS TO SEIZE PRIVATE PROPERTY:

The Supreme Court has ruled that the Constitution places limits on the ability of states and localities to take and keep cash, cars, houses and other private property used to commit crimes, [reports](#) The New York *Times*. Reporters Adam Liptak and Shaila Dewan explains that the practice, known as civil forfeiture, "is a popular way to raise revenue and is easily abused, and it has been the subject of widespread criticism across the political spectrum. The court's decision will open the door to new legal arguments when the value of the property seized was out of proportion to the crimes involved." All nine justices found that the Excessive Fines Clause applies to the states under the 14th Amendment. Justice Ruth Bader Ginsburg wrote that the historical and logical case for the conclusion is overwhelming. *General Counsel News*, February 24, 2019.

8. GAO ASKS FOR MORE GUIDANCE ON DC PLAN ASSETS TRANSFERRED TO STATES:

The GAO has recommended that the IRS consider clarifying whether transfers from employer-based plans to states constitute reportable and taxable distributions and consider modifying its list of permitted reasons for rolling over savings after the 60-day rollover deadline. A Government Accountability Office (GAO) report explains that the IRS and the Department of Labor (DOL) have issued guidance on transferring defined contribution (DC) retirement savings for missing participants to states; however, the IRS has not clarified certain responsibilities or ensured that the retirement savings that owners claim from states can be rolled over into other tax-deferred retirement accounts. For example, the IRS has not specified whether retirement plan providers should report state transfers to the IRS as distributions and withhold federal income taxes. IRS officials told the GAO that the agency has not issued guidance to clarify this issue because of competing priorities. As a result, GAO says, retirement plan provider practices vary -- some providers withhold taxes when transferring savings to states while others do not. In addition, the IRS has not taken action to ensure that individuals who claim retirement savings from a state can roll over these savings to other tax-deferred retirement accounts after the IRS's 60-day deadline. IRS allows individuals to roll over savings after 60 days for several reasons, none of which include claiming savings from a state. The GAO report

says, “Federal law seeks to protect the interests of participants in retirement plans. Account owners who are unable to roll over their reclaimed savings forgo the opportunity to continue investing the funds on a tax-deferred basis.” The GAO has recommended that the IRS consider clarifying whether transfers from employer-based plans to states constitute reportable and taxable distributions and consider modifying its list of permitted reasons for rolling over savings after the 60-day rollover deadline. The IRS agreed with its recommendations and noted that the agency will work with the Department of the Treasury to address them. In its research, the GAO found that of the 22 states responding to its survey, 17 states provided data indicating that \$35 million in unclaimed retirement savings was transferred to them from employer plans and individual retirement accounts (IRAs) in 2016. Assets and uncashed checks from employer plans were the most common form of retirement savings transferred to states. After funds are transferred, owners can claim their savings from the state. According to the 15 states providing data on this, owners claimed about \$25 million in retirement savings in 2016: \$601, on average, from 401(k) plan checks, and \$5,817, on average, from traditional IRAs. States reported using a range of strategies to maintain the value of retirement savings while holding these funds, such as applying interest. The full GAO report may be downloaded [here](#). Rebecca Moore, Plansponsor, February 22, 2019.

9. US PUBLIC PENSION ASSETS TUMBLE IN Q4:

Aggregate investment losses of 6.39% led to a \$306 billion loss in funding for the 100 largest public defined benefit pension plans in the US during the fourth quarter of 2018, which was the largest quarterly funding decrease in more than two years, according to consulting firm Milliman, Inc. The decrease in the funded status was also more than double the prior largest decrease, according to Milliman. Estimated investment losses for plans during the quarter ranged from 10.27% to 2.18%, and as a result, the funding ratio of the pension funds as tracked by the Milliman Public Pension Funding Index (PPFI) fell to 67.2% as of the end of December, from 72.9% at the end of September. “Public pensions took a huge hit in the fourth quarter of 2018,” said Becky Sielman, author of the Milliman 100 Public Pension Funding Index, in a release. “And for those plans in which benefits paid out exceed contributions coming in, this is especially difficult news, as investment returns are critical to slow the outflow of funding.” As of Dec. 31, 2018, the PPFI deficit was \$1.693 trillion, compared to \$1.387 trillion at the end of September 2018. The total pension liability also continued to expand to an estimated \$5.164 trillion at the end of the fourth quarter, up from \$5.123 trillion at the end of the previous quarter. Funded ratios overall moved lower during the final quarter of the year, with nine of the 100 plans dropping below the 90% funded mark. Milliman said there were only eight plans above the 90% threshold, compared to 17 at the end of the third quarter. Additionally, the number of poorly funded pension plans also increased, as 33 plans’ funded ratios fell below 60%,

with another 11 plans below 40% funded. The Milliman 100 PPF aggregate asset value declined to \$3.471 trillion at the end of 2018 from \$3.736 trillion at the end of the third quarter. The plans lost investment market value of approximately \$239 billion, on top of approximately \$26 billion flowing out, as benefits paid out exceeded contributions coming in from employers and plan members. The results of the Milliman 100 Public Pension Funding Index are based on the pension plan financial reporting information disclosed in the plan sponsors' Comprehensive Annual Financial Reports (CAFRs), which reflect measurement dates ranging from June 30, 2016, to December 31, 2017. *Chief Investment Officer*, February 21, 2019.

10. REPEAL OF ALIMONY DEDUCTION MAY HAVE UNINTENDED CONSEQUENCES ON POST DIVORCE GRANTOR TRUSTS:

The Tax Cuts and Jobs Act, (The Act), has brought with it many changes that impact all taxpayers. One of the provisions of The Act that may impact many Americans is the new legislation that repealed the alimony deduction after 12/31/2018. Most people understand this provision as it relates to alimony, divorce, and the income taxation of same, but there is another potential impact of the Act that relates to divorce that people should be aware of. Grantor trusts are frequently used in marital planning and divorce situations. In such situations, one spouse, let's refer to him or her as the "donor spouse," sets up an irrevocable trust for the benefit of the other spouse, let's call him or her the "donee spouse." During the time of marriage, the grantor, or the "donor spouse," may hold a "power or interest" in the trust, that for tax purposes, the donor spouse to be subject to the grantor trust rules under IRC sections 671-679. The application of these rules require that the donor spouse is subject to income taxes on the trust income. However, prior to the Act that changed if the couple is was divorced. Section 682(a) of the Internal Revenue Code, provided that if a grantor created a grantor trust for his or her spouse, then upon legal separation or divorce, the income would be taxed to the recipient, or the donee spouse. Unfortunately, whether intentionally or by oversight, Section 682 was also repealed under the Tax Cut and Jobs Act for any divorce or separation agreement executed after 12/31/2018. For trusts that were created before the repeal of 682, the IRS issued Notice 2018-37, which made clear that section 682 will continue to apply to couples who divorced on or before December 31, 2018.

What Happens With Trusts If the Divorce Is Granted after December 31, 2018?

Section 677(a) provides that grantor trust status exists if the grantor's spouse may receive income without approval from an adverse party. So logically, you would assume that when a divorce occurs, there is no longer a spouse, and hence, no grantor trust issue. But IRC section 672(e)(1)(A), otherwise known as the Spousal Unity Rule, states that the grantor is considered to hold any power or interest of a spouse, and the grantor's spouse is defined

under that section as any individual who was the grantor's spouse at the time of the creation of the trust. This could cause serious problems and needs to be taken into consideration when negotiating current divorce or nuptial agreements for couples who have initiated, or are planning to initiate such trusts, or who are considering trusts during lifetime as part of their marital estate planning. The IRS recognizes this potential conflict caused by the repeal of 682, and for now, is seeking guidance and comments and will, at some point, be issuing regulations or additional guidance on the impact of the repeal of 682.

How MBAF Can Help

The repeal of section 682 is just one of the many complications raised by The Act that taxpayers, and particularly married taxpayers, need to be aware of under the new tax laws. While there are some new laws which simplify certain things for taxpayers, many add complexities. Since tax season is upon us, now is the time to be sure you are entirely up to speed, and understand how to maximize the potential benefits to be found in this tax legislation. There may be options and opportunities that the new reforms create that you may not be aware of, as well as new compliance issues. We can help you answer any questions you may have regarding the repeal of Section 682, or any impacts of the Tax Cuts and Jobs Act. Compliance with and understanding the changes in the tax codes regarding the Tax Cuts and Jobs Act can be complex. If you would like to benefit from our expertise in these areas, or if you have further questions on this Advisory, do not hesitate to contact our Tax and Accounting Specialists, or call us at 1.800.239.1474. MBAF Certified Public Accountants, LLP, February 20, 2019.

11. DID YOU KNOW BENJAMIN FRANKLIN SAID THIS?:

A house is not a home unless, it contains food and fire for the mind as well as the body.

12. PONDERISMS:

Why do people pay to go up tall buildings and then put money in binoculars to look at things on the ground?

13. INSPIRATIONAL QUOTES:

I will love the light for it shows me the way, yet I will endure the darkness because it shows me the stars. - Og Mandino

14. TODAY IN HISTORY:

On this day in 1804, Napoleonic Code adopted in France, stresses clearly written and accessible law.

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

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