



# CYPEN & CYPEN NEWSLETTER for May 2, 2019

Copyright, 1996-2019, all rights reserved  
Stephen H. Cypen, Esq., Founding Editor  
Robert D. Klausner, Esq., Senior Editor

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

## **1. THE 2019 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS:**

### **In 2018**

At the end of 2018, the OASDI program was providing benefit payments to about 63 million people: 47 million retired workers and dependents of retired workers, 6 million survivors of deceased workers, and 10 million disabled workers and dependents of disabled workers. During the year, an estimated 176 million people had earnings covered by Social Security and paid payroll taxes on those earnings. The total cost of the program in 2018 was \$1,000 billion. Total income was \$1,003 billion, which consisted of \$920 billion in non-interest income and \$83 billion in interest earnings. Asset reserves held in special issue U.S. Treasury securities grew from \$2,892 billion at the beginning of the year

to \$2,895 billion at the end of the year.

### **Short-Range Results**

Under the Trustees' intermediate assumptions, Social Security's total cost is projected to be less than its total income in 2019 and higher than its total income in 2020 and all later years. Social Security's cost has exceeded its non-interest income since 2010. For 2019, program cost is projected to be less than total income by about \$1 billion and exceed non-interest income by about \$81 billion. To illustrate the actuarial status of the Social Security program as a whole, the operations of the OASI and DI funds are often shown on a combined basis as OASDI. However, by law, the two funds are separate entities and therefore the combined fund operations and reserves are hypothetical. The combined reserves are projected to decrease from \$2,895 billion at the beginning of 2019 to \$2,148 billion at the end of 2028. The reserves of the combined OASI and DI Trust Funds along with projected program income are adequate to cover projected program cost over the next 10 years under the intermediate assumptions. The ratio of reserves to annual cost is projected to decline from 273 percent at the beginning of 2019 to 130 percent at the beginning of 2028. By remaining at or above 100 percent, the combined OASI and DI Trust Funds satisfy the Trustees' test of short-range financial adequacy. Considered separately, the OASI Trust Fund also satisfies the test, but the DI Trust Fund does not. For last year's report, the Trustees projected that combined reserves would be 272 percent of annual cost at the beginning of 2019 and 120 percent at the beginning of 2028.

### **Long-Range Results**

Under the Trustees' intermediate assumptions, OASDI cost is projected to exceed total income starting in 2020, and the dollar level of the hypothetical combined trust fund reserves declines until reserves become depleted in 2035. A figure shows the implications of reserve depletion for the combined OASI and DI Trust Funds. Considered separately, the OASI Trust Fund reserves become depleted in 2034 and the DI Trust Fund reserves become depleted in 2052. In last year's report, the projected reserve depletion years were 2034 for OASDI, 2034 for OASI, and 2032 for DI. The large change in the reserve depletion date for DI is mainly due to continuing favorable experience for DI applications and benefit awards, both of which fell well below levels projected in last year's report for 2018. Disability applications have been declining steadily since 2010, and the total number of disabled-worker beneficiaries in current payment status has been falling since 2014. For this report, disability applications and incidence rates are assumed to rise more gradually from the current low levels to an ultimate age-sex-adjusted disability incidence rate assumption of 5.2 per thousand exposed by the end of the short-range projection period, compared to 5.4 per thousand assumed in last year's report. Projected OASDI cost increases more rapidly than projected non-interest income through 2040 primarily

because the retirement of the baby-boom generation will increase the number of beneficiaries much faster than the number of covered workers increases, as subsequent lower-birth-rate generations replace the baby-boom generation at working ages. From 2040 through 2051, the cost rate (the ratio of program cost to taxable payroll) generally declines because the aging baby-boom generation is gradually replaced at retirement ages by subsequent lower-birth-rate generations. Thereafter, increases in life expectancy cause OASDI cost to increase generally relative to non-interest income, but more slowly than between 2010 and 2040. The projected OASDI annual cost rate increases from 13.91 percent of taxable payroll for 2019 to 16.62 percent for 2040 and to 17.47 percent for 2093, a level that is 4.11 percent of taxable payroll more than the projected income rate (the ratio of non-interest income to taxable payroll) for 2093. For last year's report, the Trustees estimated the OASDI cost for 2093 at 17.72 percent, or 4.36 percent of payroll more than the annual income rate for that year. Expressed in relation to the projected gross domestic product (GDP), OASDI cost generally rises from 4.9 percent of GDP for 2019 to about 5.9 percent by 2039, then declines to 5.8 percent by 2052, and then generally increases to 6.0 percent by 2093. For the 75-year projection period, the actuarial deficit is 2.78 percent of taxable payroll, decreased from 2.84 percent of taxable payroll in last year's report. The closely-related open-group unfunded obligation for OASDI over the 75-year period is 2.61 percent of taxable payroll, decreased from 2.68 percent of payroll in last year's report. The open-group unfunded obligation for OASDI over the 75-year period is \$13.9 trillion in present value and is \$0.7 trillion more than the measured level of \$13.2 trillion a year ago. If the assumptions, methods, starting values, and the law had all remained unchanged, the actuarial deficit would have increased to 2.90 percent of taxable payroll, and the unfunded obligation would have risen to about 2.74 percent of taxable payroll and \$13.7 trillion in present value due to the change in the valuation date. To illustrate the magnitude of the 75-year actuarial deficit, consider that for the combined OASI and DI Trust Funds to remain fully solvent throughout the 75-year projection period: (1) revenue would have to increase by an amount equivalent to an immediate and permanent payroll tax rate increase of 2.70 percentage points to 15.10 percent, (2) scheduled benefits would have to be reduced by an amount equivalent to an immediate and permanent reduction of about 17 percent applied to all current and future beneficiaries, or about 20 percent if the reductions were applied only to those who become initially eligible for benefits in 2019 or later; or (3) some combination of these approaches would have to be adopted. If substantial actions are deferred for several years, the changes necessary to maintain Social Security solvency would be concentrated on fewer years and fewer generations. Much larger changes would be necessary if action is deferred until the combined trust fund reserves become depleted in 2035. For example, maintaining 75-year solvency with changes that begin in 2035 would require: (1) an increase in revenue by an amount equivalent to a permanent 3.65 percentage point

payroll tax rate increase to 16.05 percent starting in 2035, (2) a reduction in scheduled benefits by an amount equivalent to a permanent 23 percent reduction in all benefits starting in 2035, or (3) some combination of these approaches. Conclusion Under the intermediate assumptions, the projected hypothetical combined OASI and DI Trust Fund asset reserves become depleted and unable to pay scheduled benefits in full on a timely basis in 2035. At the time of depletion of these combined reserves, continuing income to the combined trust funds would be sufficient to pay 80 percent of scheduled benefits. The OASI Trust Fund reserves are projected to become depleted in 2034, at which time OASI income would be sufficient to pay 77 percent of OASI scheduled benefits. DI Trust Fund asset reserves are projected to become depleted in 2052, at which time continuing income to the DI Trust Fund would be sufficient to pay 91 percent of DI scheduled benefits. Lawmakers have a broad continuum of policy options that would close or reduce Social Security's long-term financing shortfall. Cost estimates for many such policy options are available at [www.ssa.gov/OACT/solvency/provisions/](http://www.ssa.gov/OACT/solvency/provisions/). The Trustees recommend that lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them. Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits. Social Security will play a critical role in the lives of 64 million beneficiaries and 178 million covered workers and their families during 2019. With informed discussion, creative thinking, and timely legislative action, Social Security can continue.

Social Security Administration, April 22, 2019.

## **2. 2019 ANNUAL REPORT OF THE BOARDS OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE AND FEDERAL SUPPLEMENTARY MEDICAL INSURANCE TRUST FUNDS:**

The major findings of this report under the intermediate set of assumptions appear below. The balance of the Overview and the following Actuarial Analysis section describe these findings in more detail.

### **In 2018**

In 2018, Medicare covered 59.9 million people: 51.2 million aged 65 and older, and 8.8 million disabled. About 36 percent of these beneficiaries have chosen to enroll in Part C private health plans that contract with Medicare to provide Part A and Part B health services. Total expenditures in 2018 were \$740.6 billion, and total income was \$755.7 billion, which consisted of \$745.9 billion in non-interest income and \$9.8 billion in interest earnings. Assets held in special issue U.S. Treasury securities increased by \$15.1 billion to \$304.7 billion.

### **Short-Range Results**

The estimated depletion date for the HI trust fund is 2026, the same as in last year's report. As in past years, the Trustees have determined that the fund is not adequately financed over the next 10 years. HI income is projected to be lower than last year's estimates due to lower payroll taxes and lower income from the taxation of Social Security benefits. HI expenditures are projected to be slightly higher than last year's estimates because of higher-than-projected 2018 spending and higher projected provider payment updates, factors that are mostly offset by the effect of lower assumed utilization of skilled nursing facility services. In 2018, HI expenditures exceeded income by \$1.6 billion. The Trustees project deficits in all future years until the trust fund becomes depleted in 2026. The assets were \$200.4 billion at the beginning of 2019, representing about 62 percent of expenditures during the year, which is below the Trustees' minimum recommended level of 100 percent. The HI trust fund has not met the Trustees' formal test of short-range financial adequacy since 2003. Growth in HI expenditures has averaged 3.0 percent annually over the last 5 years, compared with non-interest income growth of 4.4 percent. Over the next 5 years, projected annual growth rates for expenditures and non-interest income are 7.0 percent and 5.7 percent, respectively. The SMI trust fund is expected to be adequately financed over the next 10 years and beyond because income from premiums and general revenue for Parts B and D are reset each year to cover expected costs and ensure a reserve for Part B contingencies. The monthly Part B premium for 2019 is \$135.50. Part B and Part D costs have averaged annual growth rates of 6.6 percent and 6.3 percent, respectively, over the last 5 years, as compared to growth of 4.1 percent for GDP. Under current law, the Trustees project that cost growth over the next 5 years will average 8.3 percent for Part B and 7.3 percent for Part D, significantly faster than the projected average annual GDP growth rate of 4.7 percent over the period. The Trustees are issuing a determination of projected excess general revenue Medicare funding in this report because the difference between Medicare's total outlays and its dedicated financing sources<sup>6</sup> is projected to exceed 45 percent of outlays within 7 years. Since this determination was made last year as well, this year's determination triggers a Medicare funding warning, which (i) requires the President to submit to Congress proposed legislation to respond to the warning within 15 days after the submission of the Fiscal Year 2021 Budget and (ii) requires Congress to consider the legislation on an expedited basis. This is the third consecutive year that a determination of excess general revenue Medicare funding has been issued, and the second consecutive year that a Medicare funding warning has been issued.

### **Long-Range Results**

For the 75-year projection period, the HI actuarial deficit has increased to 0.91 percent of taxable payroll from 0.82 percent in last year's report. Several factors contributed to the

change in the actuarial deficit, most notably lower assumed productivity growth (+0.10 percent of taxable payroll), slower projected growth in the utilization of skilled nursing facility services (−0.10 percent), higher costs and lower income in 2018 than expected (+0.04 percent), lower real discount rates (+0.03 percent), and other factors (+0.02 percent). Part B outlays were 1.7 percent of GDP in 2018, and the Board projects that they will grow to about 3.1 percent by 2093 under current law. The long-range projections as a percent of GDP are somewhat higher than those projected last year due to faster projected spending growth for physician-administered drugs and slower assumed growth of economy-wide productivity. The Board estimates that Part D outlays will increase from 0.5 percent of GDP in 2018 to about 1.1 percent by 2093. These long-range outlay projections, as a percent of GDP, are slightly lower than those shown in last year's report. Transfers from the general fund finance about three-quarters of SMI costs and are central to the automatic financial balance of the fund's two accounts. Such transfers represent a large and growing requirement for the Federal budget. SMI general revenues equal 1.6 percent of GDP in 2018 and are projected to increase to an estimated 3.0 percent in 2093.

### **Conclusion**

Total Medicare expenditures were \$741 billion in 2018. The Board projects that expenditures will increase in future years at a faster pace than either aggregate workers' earnings or the economy overall and that, as a percentage of GDP, they will increase from 3.7 percent in 2018 to 6.5 percent by 2093 (based on the Trustees' intermediate set of assumptions). If the relatively low price increases for physicians and other health services under Medicare are not sustained and do not take full effect in the long range as assumed in the illustrative alternative projection, then Medicare spending would instead represent roughly 9.0 percent of GDP in 2093. Growth under any of these scenarios, if realized, would substantially increase the strain on the nation's workers, the economy, Medicare beneficiaries, and the Federal budget. The Trustees project that HI tax income and other dedicated revenues will fall short of HI expenditures in all future years. The HI trust fund does not meet either the Trustees' test of short-range financial adequacy or their test of long-range close actuarial balance. The Part B and Part D accounts in the SMI trust fund are expected to be adequately financed because income from premiums and general revenue are reset each year to cover expected costs. Such financing, however, would have to increase faster than the economy to cover expected expenditure growth. The financial projections in this report indicate a need for substantial changes to address Medicare's financial challenges. The sooner solutions are enacted, the more flexible and gradual they can be. The early introduction of reforms increases the time available for affected individuals and organizations -- including health care providers, beneficiaries, and taxpayers -- to adjust their expectations and behavior. The Trustees recommend that Congress and the executive branch work closely together with a sense of urgency to

address these challenges.

Center for Medicare & Medicaid Services, April 22, 2019.

### **3. STATES WITH HIGH OPIOID PRESCRIBING RATES HAVE HIGHER RATES OF GRANDPARENTS RESPONSIBLE FOR GRANDCHILDREN:**

In the wake of the opioid epidemic that was declared a [public health crisis](#) in 2017, there has been increasing concern about what happens to the children of parents with substance abuse disorders who may be unable to care for their children. New Census Bureau [research](#) shows that grandparents may sometimes step in to care for these children. The percentage of the population age 30 and over who are raising grandchildren is higher in states that have higher opioid prescribing rates, according to a new working paper, entitled "[The Opioid Prescribing Rate and Grandparents Raising Grandchildren: State and County Level Analysis.](#)" This research uses both survey estimates from the 2012-2016 American Community Survey five-year [data](#) and administrative [2016 Opioid Prescribing Data](#) from the Centers for Disease Control and Prevention.

Higher Rates in Southern States

- Four states -- Alabama, Arkansas, Louisiana and Mississippi -- have among the highest rates on both measures -- opioid prescribing and adults age 30 and over raising grandchildren -- while Minnesota has one of the lowest.
- Some states on the list of the top and bottom five do not differ statistically from states that are not on the list.
- Five states among those with the highest percentage of both the population age 30 and over raising grandchildren and opioid prescribing rates are located in the South.
- Five states that are among the lowest percentages of the population age 30 and over raising grandchildren and opioid prescribing rates are spread across regions.

United States Census Bureau, April 22, 2019.

### **4. THE CASE FOR A LUMP SUM PENSION DISTRIBUTION:**

Large corporations, like Pfizer and Bristol-Myers, have long extolled the benefits of their defined benefit pension plans. However, in 2017, Pfizer finally pulled the plug on its defined benefit plan in favor of a more company-friendly 401(k) employer match. Bristol-Myers announced it would follow suit in 2019. These two corporations are some of the latest examples of a trend that has become more prevalent in the private sector in recent years: the extinction of defined benefit plans. As an alternative, more and more corporations are electing to "freeze" or discontinue defined benefit plans and replace them

with employer-matched 401(k) plans. These plans are much easier and cheaper for corporations to administer.

### **What motivates the move away from defined benefit plans?**

In a defined benefit plan, corporations are on the hook for the performance and funding of its plan. If the underlying investments underperform, as was the case during the last financial crisis, it can become cost-prohibitive for the sponsor company to maintain adequate funding in order to meet current and future pension obligations. Furthermore, rising life expectancies mean employees may collect a pension for decades. Unlike government plans, private pension plans can't run on a pay-as-you-go basis. They are legally required to keep those plans funded. Should the pension plans fail, these companies will suffer massive legal liability. These factors have contributed to the growing trend of large U.S. corporations opting for 401(k)s over pensions. Now, employees of companies discontinuing their defined-benefit plans, as well as those retiring from companies that maintain a plan, face a choice: To take a lump sum distribution now, which can be rolled into an IRA, or take an annuity that pays a level amount each month upon retirement.

### **Trade-offs to consider**

The lump sum option carries with it more investment risk borne by the employee, but it also provides much more growth opportunity and flexible distribution options. The annuity option, while more stable and predictable, severely restricts the pensioner's ability to adjust to a rising cost of living in retirement. You should make the decision based on what's best for your individual financial goals, but the lump sum option does provide several important advantages over an annuity election:

- A lump sum affords complete control of your funds.
- It avoids dependence on the company's solvency.
- It also offers many distribution options.
- It gives the investor more control over their tax liability.
- And it allows you the ability to pass to your heirs the remaining account balance upon death, which can be an incredibly valuable wealth-building tool for a family.

A lump sum rollover into an IRA also "quarantines" the employee's funds, thereby mitigating the risk of a reduction in pension benefit, which may occur in the event of a company's bankruptcy. In the wake of the 2008 financial crisis, a number of longstanding companies were forced to file for bankruptcy protection, and many pension members were left to rely on the [Pension Benefit Guaranty Corporation](#) with reductions in their pension benefits, like having their recent pension increases prorated. With the lump sum option,

your funds are segregated in the IRA, which eliminates the risk of this potential impact.

### **The flaw of opting for monthly payments upon retirement**

The [lump sum plan](#) puts the money in your control right away. With the monthly payment option, the plan member passes before retirement or soon after electing payments in retirement, those funds can be lost. Members can opt for a smaller payment so that benefits continue if they predecease their spouses. However, the pensioner may be leaving substantial money on the table if their spouse dies before them or if both spouses pass away within a short timeframe of one another. Many times, employees don't realize they have a lump sum option or lack the discipline and expertise to properly manage those funds. With some proper planning in concert with the advice from an experienced CERTIFIED FINANCIAL PLANNER™, oftentimes electing a lump sum distribution can be the most advantageous and flexible option available.

### **How to take the lump sum**

Rolling the lump sum into an IRA preserves the tax-deferred nature of the funds and provides flexibility with future withdrawals. As the IRA owner, you own the account and therefore control the distributions. Unlike options available in a defined benefit plan, through an IRA, you can choose the frequency, size and starting date for future withdrawals. You can also stop and start withdrawals as often as you'd like, which provides you with much more freedom in managing your taxable income in retirement. Managing the IRA involves more risk than simply taking part in a pension plan. The shift toward more employer-matched 401(k) plans has also shifted the risk of managing those funds to the employee. Less-experienced investors would be wise to work with a trusted, CERTIFIED FINANCIAL PLANNER™ to establish retirement planning goals and help manage their assets to accomplish those goals. Experienced financial professionals work with clients to manage investments, control tax liability and help clients prepare for a secure retirement. A word of caution: When deciding between an annuity and lump sum payment option, it is important to understand that lump sum payment amounts are determined not only by an employee's years of service and earnings history, but also by the level of current market interest rates. As rates go up, the outcome of the lump sum payment calculation will decline. This is true because, much like the lump sum election for lottery winners, the amount is calculated by discounting all expected future payments to a current present value amount. If you are an employee whose company recently announced plans to discontinue its defined benefit plan or an approaching retiree facing the same pension distribution decision, I would encourage you to do your due diligence. Electing the wrong option may have permanent and expensive ramifications. Speak with a knowledgeable and experienced CERTIFIED FINANCIAL PLANNER™ who can help you understand your options and guide you in making a suitable decision.

Patrick B, Healy, CFP® MBA, Founder & President Caliber Financial Partners, Kiplinger, April 19, 2019.

## **5. SPRUCE UP YOUR FINANCIAL PLAN WITH SOCIAL SECURITY:**

Now that tax season is over, it's probably a good time to evaluate some financial "best practices" for the rest of the year. A good spring-cleaning can clear out the clutter to let you see a clear path for your future. Social Security is always here to help. Even if you just started working, now is the time to start preparing for retirement. Achieving the dream of a secure, comfortable retirement is much easier with a strong financial plan.

### **Tip 1: Start Early**

Our online retirement planning resources are helpful to people at any stage of their career. Our many calculators, Benefit Eligibility Screening Tool, and disability resources are all available on our [benefit planners website](#). From here, you can read and download publications and also email and share with colleagues, friends, and family. Remember, the earlier you start, the better chance you have at saving what you need.

### **Tip 2: Be Informed**

We're often asked, "What's the best age to start receiving retirement benefits?" The answer is that there's no single "best age" for everyone and, ultimately, it's your choice. The most important thing is to make an informed decision, based on your individual and family circumstances. To help you make that decision, see our retirement publications.

### **Tip 3: Estimate the Benefits You Might Get**

Knowing the amount of money you could get is pivotal in planning your finances. With the *Retirement Estimator*, you can plug in some basic information to get an instant, personalized estimate of your future benefits. [Try out different scenarios](#), such as higher or lower future earnings amounts and various retirement dates to see the various potential effects on your future benefit amounts.

Social Security can help you spring into action and take control of your future with the proper planning tools. Share these online resources with friends and family so they, too, will have the tools. Jim Borland, Acting Deputy Commissioner for Communications, Social Security Administration, April 18, 2019.

## **6. PUBLIC PLANS SURF WAVE OF REFORMS IN AFTERMATH OF CRISIS:**

One of the many dramatic effects of the Great Recession was an unprecedented amount of public pension reform activity that is just now starting to ebb. After state and local pension fund assets plummeted to \$2.17 trillion in March 2009 from \$3.15 trillion at the

end of 2007 and the governments' own coffers took a hit, policymakers began looking hard at ways to manage rising pension costs, according to a December report from the National Association of State Retirement Administrators. The report found nearly every state passing "meaningful" reform for one or more of its pension plans. "States have always made reforms, but what was untypical was the magnitude," said Alex Brown, the Washington-based research manager for NASRA. The number of states enacting pension reforms skyrocketed to 27 in 2011, up from five in 2007, NASRA found. In 2016, reforms were enacted by three states, then spiked again to 13 in 2017, falling once again to just five last year. So far in 2019, just a few states are actively discussing reforms. In Kentucky, a legislative working group is reviewing the pension systems for possible changes after the Kentucky Supreme Court in December struck down on procedural grounds a pension reform bill signed into law in April. The law enrolled new teachers into a cash balance plan and reset the 30-year amortization period to pay off the unfunded liabilities of the \$17.4 billion Kentucky Retirement System, Frankfort, among other changes. Georgia legislators will soon have pension reform proposals to consider, following an audit showing potential cost savings from plan design changes for teachers' pensions and cost-cutting measures at the \$16 billion [Employees' Retirement System of Georgia](#), Atlanta. In New Mexico, legislators will be working on a pension solvency plan with input from the board of the \$15.5 billion New Mexico Public Employees Retirement Association, Santa Fe, which in December recommended increasing contributions from employees and employers, plus temporarily suspending and later reducing cost-of-living increases.

### **Stress-testing**

Another recent concept is mandated stress-testing of public pension funds to help policymakers prepare for the next economic downturn. While public plan actuaries have always done stress-testing or similar modeling, Greg Mennis, director of public sector retirement systems for Pew Charitable Trusts in Washington, is seeing the idea of formal, annual stress-testing gain traction. California and Washington state were joined in recent years by Connecticut, Colorado, Hawaii, New Jersey and Virginia, where legislation dictates it. A study of reform activity through 2014 by the Center for Retirement Research at Boston College found that since the financial crisis, 74% of state plans and 57% of large local plans have cut benefits or raised employee contributions to curb rising costs. Plans most likely to enact changes were those with a larger cost burden and lower initial employee contributions. States with the strongest legal protections for worker benefits were more likely to limit the cuts to new hires. "That's been the main lever that plans can use, although it is important to note that it is not going to have an impact on current funding," said Caroline Crawford, the center's assistant director of state and local research. Still, nearly one-quarter of plans have made changes impacting current

employees. The most common change has been cutting cost-of-living increases, some of which were overturned in state courts. Legal challenges were a common reaction to half of the states enacting reforms, according to NASRA, which found that, "in many cases, what was upheld in one state was struck down in another." Increased employee contributions upheld in Florida were found illegal in Arizona, for example. Colorado's reduced cost-of-living formula was found constitutional, while Oregon's was not. Constitutional challenges to pension changes typically cite clauses on contracts or takings. The first clause prevents a state from impairing contractual obligations, and the second prohibits takings of property without legal due process. Other common reforms increased age and service requirements, with 33 states increasing the retirement age, years of service requirement or a combination of both, according to NASRA.

### **Hybrid plans**

Eight states -- Arizona, Connecticut, Michigan, Pennsylvania, Rhode Island, Tennessee, Utah and Virginia -- have created hybrid plans since 2009 for new or existing employees. Kansas and Kentucky created cash balance plans for new hires. Another trend that appears here to stay is more risk sharing with employees. NASRA found that 23 states have added one or more risk-sharing feature since 2009, ranging from hybrid plans to variable contribution rates and benefits that are subject to change if investment performance or funding levels dip. "In recent years we've seen plans take on additional risk sharing, and in some cases, they are adjusted without being subject to the legislative process," said Mr. Brown. While increasing employee contributions or trimming benefits is not a new concept, "now it is disclosed upfront," he said. Employees "have effectively learned that they were bearing some of the risk." Nine states increased the vesting period for new employees to 10 years from five, although two -- Missouri and North Carolina -- later reversed that after the savings did not materialize and workforce conflicts arose. The workforce issues related to pension reforms are now coming into focus. A Center for Retirement Research study of how pension reforms from 2005 to 2014 affected state and local government competitiveness in the labor market found that implementing the reforms hampered governments' ability to attract new employees. Retention is also "a very significant piece" of the conversation, said Diane Oakley, executive director of the National Institute on Retirement Security in Washington. A NIRS study of pension reforms from 2008 to 2013 concluded that adjusting defined benefit plans is more cost efficient than shifting to defined contribution accounts for new hires that would either increase costs to keep benefit levels or lead to bigger benefit reductions. As state and local governments now experience more retiring employees in an overall tight labor market, that is something to watch, said Joshua Franzel, president and CEO of the Center for State and Local Government Excellence in Washington, an organization that helps state and local governments attract and retain public servants. "The pension reforms that have been

implemented in the wake of the Great Recession ... certainly have impacted their ability to recruit vs. the private sector," he said. For those and other reasons, said Mr. Franzel, "I see us entering into a period of reduced benefit reforms, and letting a lot of the reforms play out. A lot of plan sponsors will see how their effects will play out from a financial and workforce management perspective."

### **'New normal'**

Another "new normal" that CSLGE found in a 2018 snapshot of 180 public plans' investment data is that a decline in funding ratios since the recession appears to be leveling off, in part because many plans are doing more to improve them, maintaining their annual contributions or even increasing them. Many states are also being more conservative about their investment or mortality assumptions, noted Gerald Young, senior research associate at the center. "There's no reason to think that funding levels will dip lower. Things are leveling out." According to CSLGE's 2018 snapshot, state and local pension average funding ratios that were 102.1% in 2001 starting falling until 2007, when they saw a slight increase to 86.5%. In 2008, they started dipping again, with modest increases in 2014 and 2015 before leveling off in the last two years, reaching 71.6% in 2017. The snapshot is based on comprehensive annual financial reports and assessed values as of June 2018. Bridget Early, executive director of the National Public Pension Coalition, Washington, agrees that things are stabilizing. "What we are looking at are state governments that are in a better place than they were pre- and post-recession, where (the pension) line items on budgets aren't as terrifying as they have been for a long time." Still, she said, "pension funding is a 30-year equation, and budgeting is a year-by-year item." Her advice for policymakers considering further reforms is to learn from states like Minnesota, where 2018 reforms that cut assumed rates of return, lowered cost-of-living adjustments and increased employee contributions won bipartisan support after all stakeholders were brought to the table. "It was a very inclusive process," Ms. Early said. Hazel Bradford, *Pensions & Investments*, February 2019.

### **7. DID YOU KNOW BENJAMIN FRANKLIN SAID THIS?:**

A man wrapped up in himself makes a very small bundle.

### **8. PONDERISMS:**

How did the man who made the first clock, know what time it was?

### **9. INSPIRATIONAL QUOTES:**

Your attitude, not your aptitude, will determine your altitude. - Zig Ziglar

### **10. TODAY IN HISTORY:**

On this day in 1949, Arthur Miller wins Pulitzer Prize for "Death of a Salesman."

**11. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.**

Copyright, 1996-2019, all rights reserved.

Items in this Newsletter may be excerpts or summaries of original or secondary source material, and may have been reorganized for clarity and brevity. This Newsletter is general in nature and is not intended to provide specific legal or other advice.