



CYPEN & CYPEN NEWSLETTER for April 30, 2020

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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 STATE OF SUSTAINABLE INVESTING IN 2020:

During the past decade, governments across the world have promulgated more than 500 new measures that seek to promote the use of environmental, social, and governance (ESG) criteria in making investment decisions. A comprehensive report from global public accounting and consulting firm KPMG International explores these three broad issues related to sustainable investing and its impact on the alternative investment industry: the rate of progress in implementing sustainable investing, the barriers to more rapid progress, and responses to these barriers. The KPMG study was conducted before the onset of the COVID-19 global pandemic. It was produced in collaboration with CREATE-Research, "an independent research boutique specializing in strategic change and the newly emerging business models in global asset management." Other participants were

the Alternative Investment Management Association (AIMA) and the CAIA Association, which offers the Chartered Alternative Investment Analyst (CAIA) certification. A total of 135 investment managers and pension consultants from 13 countries in all key regions of the globe participated in this research project.

Key Takeaways:

- Governments worldwide are promoting sustainable investing.
- However, institutional investors are taking the lead in implementation.
- "Creating businesses of enduring value" is a key goal.
- Further progress is impeded by data and measurement problems.
- Also, investment outcomes so far are largely uncertain.

Progress and Obstacles

According to hedge fund managers surveyed for the study, institutional investors are by far the leaders in promoting ESG-driven investing. However, only 15% of these hedge fund managers "have embedded ESG factors across their strategies." More widespread adoption is hindered by the fact that 63% of them find a "lack of robust templates, consistent definitions and reliable data."

Expectations and Outcomes

Among other institutional investors surveyed, 44% believe that ESG-oriented hedge funds can deliver enhanced alpha and reduce potentially large future risks, while 34% believe that adherence to ESG principles can have a material impact on the financial results of the companies in which they invest. On the other hand, 75% say that it is too early to tell whether sustainable investing indeed delivers superior returns, and 49% indicate that finding "consistent quality data" is a major hurdle to adoption.

Indeed, 71% of hedge fund managers and 75% of other institutional investors reported that outcomes of their ESG-oriented investments have been uncertain. Moreover, among those other institutional investors, 14% indicate that the results have been negative.

Early adopters of sustainable investing find that, because of excessive short-term focus, the markets have been slow to price in risks related to sustainability. On the other hand, they also indicate that advances in skills, data, and technology are helping to promote sustainable investing.

Opportunities and Approaches

While many hedge fund managers see problems with the quality of ESG data as a

hindrance to adopting sustainable investing, others see potential market inefficiencies that can be exploited to deliver alpha. Among respondents, 47% indicated that their organizations were skeptical about ESG data, 9% were overwhelmed, 19% were inquisitive, and 25% were opportunistic.

Regarding how they use ESG criteria in making investment decisions, hedge fund managers cited several different approaches, the top three being integration (52%), negative screening (50%), and shareholder engagement (31%). Integration involves identifying key sustainability factors and using them in the decision process, often given equal weight to financial criteria. Negative screening excludes companies from consideration based on the "value system" of investors, and has been easy to implement. Shareholder engagement, wherein investors push corporate managements into adopting ESG principles, has been gaining "traction."

Best Practices

The report acknowledges that best practices regarding ESG-guided investing remain "a moving target." However, the survey indicates that four "key enablers" will be necessary to speed up the process of ESG implementation. These are guarding against "greenwashing," compliance with industry codes and principles, improving ESG reporting, and adopting Active Ownership 2.0. In this context, "greenwashing" is the process by which fund managers tout an ESG focus without having made a fundamental change in their investment processes. Among hedge fund managers responding to the survey, 41% see a significant amount of "greenwashing" in their industry, while 11% see some amount.

Regarding codes and principles, the UN Principles for Responsible Investing (PRI) have become a widely adopted standard among investment managers. Among the hedge fund managers responding to the survey, 35% are PRI signatories and 17% are the process of becoming one. Meanwhile, 56% of managers are making PRI a key part of their cultures. The "next frontier" for sustainable investing is measuring and reporting the non-financial impact of investments, the report notes. Currently, 57% of the hedge fund managers surveyed do not disclose performance with ESG metrics at all. Among the other institutional fund managers surveyed, 85% say that the hedge funds in which they invest do not offer any data at all on non-financial performance.

With respect to Active Ownership 2.0, the report indicates that 74% of the hedge fund managers surveyed rely on "shareholder engagement" to advance their ESG agendas. "However, except for high-profile proxy cases, end-investors do not as yet have a clear idea on what value is being generated by engagement activities due to a lack of fuller details," the report adds.

The Value Proposition

"Sustainable investing is about creating businesses of enduring value," the report asserts. While sustainable investing is gaining acceptance in the capital markets, it nonetheless is a "slow process," but with large institutional investors at the forefront. Mark Kolakowski, www.investopedia.com, April 22, 2020.

2. MCCONNELL RULES OUT PENSION AID FOR STATES:

States should be able to pursue bankruptcy rather than relying further on the federal government during the coronavirus pandemic, and any federal assistance should not be spent on addressing pension underfunding, said Senate Majority Leader Mitch McConnell, R-Ky., during a radio interview.

Radio host Hugh Hewitt asked whether Mr. McConnell would insist on reforms of state pension plans if states get more funding from the next COVID-19 assistance measure expected from Congress. "There's not going to be any desire on the Republican side to bail out state pensions by borrowing money from future generations," Mr. McConnell. "We'll certainly insist that anything we'd borrow to send down to the states is not spent on solving problems that they created for themselves over the years with their pension program."

Another relief bill passed the Senate and was approved by the House. It has no new funding for state and local governments, which could be included in another one, an idea supported by both Treasury Secretary Steven Mnuchin and President Donald Trump. Mr. McConnell said during the radio interview that the idea will be discussed within the Senate Republican Conference, and that many states "have done it to themselves with their pension programs." Mr. Trump and many members of Congress on both sides of the aisle have endorsed a significant increase in infrastructure spending in the next relief measure. The National Governors Association wrote congressional leaders asking for \$500 billion to help states replace lost revenue. States are not currently allowed to declare bankruptcy, so Congress would have to address that as well.

Governors and state legislators have opposed the bankruptcy option when Congress has raised it in the past. In a 2011 letter, NGA and National Conference of State Legislatures officials said, "The mere discussion of legislation, let alone the existence of a law allowing states to declare bankruptcy would only serve to increase interest rates and create more volatility in bond markets." Hazel Bradford, *Pension & Investments*, April 22, 2020.

3. COVID-19 HITS FIXED ANNUITIES HARD, WHILE VARIABLE ANNUITIES SHINE:

While fixed annuity sales saw a double-digit decline in the first quarter, they rebounded a bit in March; variable annuity sales rose 16% during the quarter despite the market volatility, according to the [Secure Retirement Institute](#), a division of LIMRA, a trade association for the insurance and financial services industry.

Total fixed annuity sales equaled \$29.5 billion for the first quarter, down 22% from the first quarter of 2019. Fixed indexed annuity sales fell 12% from the year-ago quarter to \$15.8 billion, marking the third consecutive year of a downswing. But sales of FIAs were up slightly in March, due to the market volatility. Fixed-rate deferred annuities also took a hit, with sales at \$9.8 billion during the quarter, a 35% reduction from a year ago. “At the end of 2019, we had forecasted fixed annuity sales to fall in 2020. However, the economic fallout from the coronavirus pandemic -- prompting the Federal Reserve to cut interest rates to record low levels -- created a challenging environment for annuity manufacturers,” said Todd Giesing, annuity research director, SRI. “All fixed products recorded double-digit declines.”

While fixed products suffered, variable annuities saw sales up for the fourth straight quarter. Variable annuity sales rose 16% from a year ago to \$26.5 billion. In the first quarter, registered index-linked annuity (RILA) sales soared 44% to \$5.1 billion from the same period last year, setting a new record high since they were introduced in 2010. SRI predicts RILA sales will continue to increase in the second quarter.

Sales of fixed-rate deferred annuities were 4% higher than the fourth quarter, showing a demand for products that offer principal protection. “As we saw during the Great Recession, we expect fixed-rate deferred product sales to improve in the second quarter as consumers seek to protect their investment from market volatility and losses,” said Giesing. SRI warned in the report that there is often a lag between sales and market conditions, so the market impact to variable annuities could show up in second-quarter sales data. Asia Martin, www.WealthManagement.com, April 22, 2020.

4. DC PLAN SPONSORS REACTING WITH MODERATION TO CORONAVIRUS:

The novel coronavirus pandemic and its effect on the stock market caused speculation in the retirement plan industry about whether plan sponsors would react with changes to their retirement plans as they did in past market crises. There was also concern about how the market drop and subsequent reaction would affect participants' retirement security. PLANSPONSOR fielded a pulse survey of respondents to our 2019 Defined Contribution Survey April 7 through 10. Responses were received from 387 DC plan sponsors from a wide range of employer sizes.

Overall, one-third of respondents that offer an employer match in their defined contribution (DC) plans have discussed reducing or suspending it. Twenty-one percent have already taken action to do so, while 13% said they are likely to take action. Plan sponsors with 500 or more employees were more likely to take action than smaller plan sponsors—43% of larger plan sponsors have discussed it and 25% of smaller plan sponsors have, while 28% versus 12%, respectively, have taken action.

COVID-19 Impact on Employer Match

Brian O’Keefe, PLANSPONSOR’s director of research and surveys, notes that in the 2009 DC Survey, respondents were asked whether they had reduced or suspended their match. At the time, 10% reported that they had already reduced or suspended their match. The survey was conducted in the summer of 2009, about eight to 10 months into the financial crisis. The coronavirus-related pulse survey showed that 34% of 33% already have or are likely to take action, which is roughly 10% (11.2%) and would track to the 2008 outcomes.

Suspending the employer match is a more difficult decision for safe harbor plans. In an Insights article from Cammack Retirement, Michael A. Webb, a vice president based in New York City, explains that safe harbor plans generally can suspend or reduce employer contributions if the safe harbor notice specifically stated that this action could be taken, or if the employer is operating at an economic loss in the current plan year. Safe harbor plans require a certain match formula to be used or a qualified nonelective contribution to be made in order for plan sponsors to avoid nondiscrimination testing. If these contributions are reduced or suspended, plan sponsors will be subject to this testing.

Loreen Gilbert, president of WealthWise Financial in Irvine, California, says with safe harbor 401(k) or 403(b) plans, plan sponsors must give a 30-day notice to plan participants that the match will be suspended, and the plan sponsor cannot start to suspend the match until after the 30 days. The inability to suspend match contributions quickly, coupled with the employer contribution requirements for safe harbor plans during a time when plan sponsors’ companies may be financially strapped, could lead some to reconsider their plan’s safe harbor status.

Respondents to PLANSPONSOR’s pulse survey were asked whether they have discussed and taken action on their plans’ safe harbor status. One-quarter of those that indicated they sponsor safe harbor plans have discussed it, and 15% said they have taken action while 7% are likely to. Again, larger plan sponsors are more likely to have discussed it and to have taken action. Thirty-eight percent of DC plan sponsors with 500 or more employees have discussed opting out of safe harbor status and 30% have taken action. Eighteen percent of smaller plan sponsors have discussed it and only 3% have

taken action.

COVID-19 Impact on Safe Harbor Status

The Coronavirus Aid, Relief and Economic Security (CARES) Act created a new emergency retirement plan distribution option dubbed the “coronavirus related distribution,” or “CRD” for short. A CRD can be drawn from a DC plan or from individual retirement accounts (IRAs) in any amount up to \$100,000. Under the terms of the CARES Act, the normal 10% penalty tax levied on early plan distributions by the IRS is waived. The law also doubled the amount of loans that participants can take -- from \$50,000 or 50% of their account balance, whichever is lower, to \$100,000 or 100% of their account balance.

No doubt many retirement plan participants will need extra funds right now, but it is difficult to open up the retirement plan to support this need knowing how it may impact participants’ long-term financial security. DC plan sponsors were asked whether they will adopt the CARES Act provisions, and more than two-thirds (68%) indicated they will allow participants to take the penalty-free retirement plan distributions for COVID-19-related expenses. A smaller number (44%) reported they will increase loan limits.

Among plan sponsors with 500 or more employees, 78% said they expected to allow CRDs and 54% indicated they would increase loan limits. Sixty-two percent of plan sponsors with fewer than 500 employees said they expected to allow CRDs and 38% reported they would increase loan limits.

CARES Act Provisions

Responses to PLANSPONSOR’s pulse survey support findings of other polls showing participants have mostly “stayed the course” in their investments despite the market fall and subsequent volatility caused by the pandemic. Only 4% of respondents reported 10% or more participants made investment changes. Nearly one-third said 2% up to 10% of participants did, and one-quarter said no participants made investment changes. The rest were unsure or didn’t know. Similar numbers of participants adjusted future allocations, respondents indicated.

At the time of the survey, plan sponsors had also not made changes to investments offered in their DC plans. Eighty-five percent said they were not aware of any discussions about adding or removing options based on the market downturn. Sixteen percent had discussed increasing the frequency of their investment reviews/meetings.

Recordkeepers and advisers/consultants are always a good source of insight and

guidance for plan sponsors when contemplating plan design and investment performance, and they are primary sources with regard to implications of the pandemic and the CARES Act for retirement plan sponsors surveyed. Sixty-seven percent of respondents said they've relied on their advisers/consultants and 63% said they've relied on their recordkeepers. Three in 10 have turned to an ERISA attorney and 26% have relied on a third-party administrator (TPA). For their part, recordkeepers and advisers have reacted to the crisis with additional support for plan sponsors and participants. Rebecca Moore, PLANSPONSOR, April 20, 2020.

5. SOME 401(K) PARTICIPANTS FLED EQUITY-HEAVY FUNDS IN MARCH 2020:

Heavy trading by 401(k) participants during March led to significant inflows to fixed-income investments, according to a monthly 401(k) index from Alight Solutions LLC. Trading inflows “overwhelmingly “went to stable value (64%), money market funds (24%) and bond funds (6%), a report posted on the firm’s website said. The biggest source of outflows were target-date funds (48%), large U.S. equity funds (29%) and international equity funds (6%). Within the target-date funds category, Alight includes target-risk funds, which it said represents less than 10% of the category.

“After reflecting market movements and trading activity, average asset allocation in equities decreased from 66% in February to 63.1% in March,” the report said. “New contributions to equities decreased from 68.2% in February to 67.3% in March.” Although target-date funds were the biggest source of trading outflows in March, they also were the biggest source of contributions (44%) in March, followed by large cap domestic equity funds (21%) and international equity funds (8%). Alight officials have said in the past that target-date funds are the leading source of contributions due to their dominance as a qualified default investment alternative.

Target-date funds remain the largest asset category with 29% in March, followed by large cap domestic equity (24%) and stable value (12%). The index covers more than 2 million participants with more than \$200 billion in Alight record-kept accounts. The Alight report also noted that March had 18 “above-normal” days of trading activity -- the most in a month since the index was created in 1997. “A ‘normal’ level of relative transfer activity is when the net daily movement of participants’ balances as a percent of total 401(k) balances within the Alight Solutions 401(k) index equals between 0.3 times and 1.5 times the average daily net activity of the preceding 12 months,” the report said. Robert Steyer, *Pension & Investments*, April 23, 2020.

6. SECURE ACT – WHAT ARE THE LIFETIME INCOME OPTIONS?:

This is the second in a series of articles describing key provisions of the SECURE Act -

this time, with a focus on lifetime income options. Some of the changes under the SECURE Act are effective immediately, while others are effective in plan or tax years beginning on or after January 1, 2020. Employers need to understand these changes to prepare themselves for the resulting effect on retirement plan administration and financial planning.

Part of the Further Consolidated Appropriations Act, 2020 that President Trump signed into law, it amounts to the most significant retirement legislation in more than a decade. It makes numerous changes (including a variety of enhancements) affecting qualified retirement plans, 403(b) and 457(b) plans, individual retirement accounts and other employee benefits.

The Act provides for a remedial plan amendment period that does not end until the last day of the 2022 plan year (the 2024 plan year for governmental plans). Employers must modify certain aspects of plan administration (and potentially financial planning decisions) now to align with the SECURE Act's more immediate changes. One of the centerpieces of the SECURE Act is its attempt to encourage plan sponsors to offer lifetime income investment and distribution options in defined contribution plans. Consistent with Department of Labor rulemaking over the past few years, Congress hopes to give plan participants a more realistic picture of their retirement readiness and an ability to choose annuity forms of payment that they will not outlive.

Safe harbor: The Act amends ERISA to create a new fiduciary safe harbor on which defined contribution plan fiduciaries may rely when selecting lifetime income providers.

The safe harbor is similar to the one described in DOL regulations that were issued in 2008, but the new rule sets forth specific measures that fiduciaries may take when selecting a lifetime income provider -- typically an insurance company. By obtaining certain representations from the provider about its status under, and satisfaction of, state insurance laws, plan fiduciaries are deemed to have satisfied the prudence requirement under ERISA applicable to the selection.

Fiduciaries who qualify for the safe harbor would be protected from liability for participant losses in the event the lifetime income provider is unable to pay the full benefits when due. This is an optional change that is currently in effect and applicable to defined contribution plans that are subject to ERISA, including 401(k) and ERISA 403(b) plans. Those choosing to exercise this option will receive safe harbor protection for fiduciaries who decide to offer a lifetime income option. However, fiduciaries still should engage in a robust process when deciding whether to offer such an option, giving careful consideration

to costs.

Estimate of monthly income: The SECURE Act also requires plan sponsors to include in defined contribution plan benefit statements an estimate of the monthly income a participant's account balance could produce in retirement if a qualified joint and survivor annuity or a single life annuity were purchased with the account. Sponsors must provide these estimates at least annually, regardless of whether a lifetime income option is offered under the plan.

The Act directs the Department of Labor to issue safe harbor model disclosures and specific assumptions that plans may use when preparing the estimates by the end of 2020. The new disclosures will be required after model notices are issued. Plan sponsors should ask their recordkeepers how they intend to provide the required disclosures.

Some recordkeepers already provide similar information on their statements or websites; plan sponsors should understand how that information may change under the new rules, particularly how current lifetime income projections might be affected.

Portable lifetime income options: Many lifetime income products are subject to fees and penalties (such as surrender and early-termination charges) if liquidated. These fees can dissuade plan fiduciaries from offering such options under a plan, but the SECURE Act addresses these concerns by making lifetime income options portable.

The Act permits participants to make direct trustee-to-trustee transfers of lifetime income investments (or to transfer annuity contracts) to an eligible employer plan or IRA if fiduciaries make a plan-level decision to eliminate the lifetime income option. Participants may take a distribution of the option without regard to other plan-level restrictions on in-service distributions.

This is an option for defined contribution plans, including 401(k), 403(b) and governmental 457(b) plans and goes into effect for plan years beginning on and after January 1, 2020. Plans that intend to offer a lifetime income option should include language permitting these kinds of distributions. Similarly, plan sponsors should consider whether to amend their plans to accept in-kind transfers of lifetime income investments. Greg Ash, www.benefitspro.com, April 13, 2020.

7. CONTRIBUTION HOLDUPS BECOMING A STARK REALITY:

While scores of retirement plan sponsors -- among them Amtrak, Marriott International Inc. and Macy's Inc. -- have suspended or delayed employer contributions to minimize the

financial wreckage from the coronavirus, it isn't an easy decision or even an easy process, particularly for sponsors of safe harbor plans.

"I don't think any employer is relishing the need to cut back on their employer contributions," said Joy M. Napier-Joyce, an attorney with Jackson Lewis PC in Baltimore. "Given the financial pressures that a lot of them are under right now, they're finding it fiscally prudent to stop any outlay of cash that can be prevented in order to cover other costs like payroll."

For sponsors of safe harbor plans, especially, the decision is doubly complex. Sponsors of such plans are required to give participants a 30 day notice - unlike most other plans, which can suspend contributions immediately.

Giving the required notice not only stymies how quickly safe harbor sponsors can act to cut costs but may be difficult in an environment where human resources departments and businesses aren't functioning normally. In addition, they must consider the challenge of non-discrimination testing, which they would now need to do if they were to stop contributions and lose their status as a safe harbor plan. One of the big attractions of using a safe harbor plan design is that it avoids non-discrimination testing.

"There are more questions I think from the safe harbor sponsors to understand what the ramifications are," Ms. Napier-Joyce said, referring to suspensions of employer contributions.

Industry trade groups are stepping in on their behalf, saying safe harbor plan design is very common among small- and medium-size businesses, those least able to weather the coronavirus crisis. The American Retirement Association, for example, is lobbying the Department of Treasury to allow sponsors to suspend or reduce contributions immediately, without the 30-day notice.

"Small businesses are encountering a cash-flow issue and the alternative to reducing employer contributions is outright plan termination," said Will Hansen, chief government affairs officer with the American Retirement Association and executive director of the Plan Sponsor Council of America in Arlington, Va. Based on a survey of 111 record keepers and an analysis of Form 5500 data, ARA estimates that roughly 216,000 small retirement plans could be at risk of termination as a result of the coronavirus pandemic. The majority of the record keepers surveyed (84%) worked primarily with plans with less than \$10 million in assets.

"We want to be able to get through this pandemic and ensure that companies are still operational and still operating their 401(k) plans," Mr. Hansen said.

The SPARK Institute Inc. is also lobbying the Treasury Department as well as the IRS and the Department of Labor, asking that they loosen the 30-day notice period to "within a reasonable time" or "as soon as practicable." "It's not easy to get a notice to an employee who is quarantined or the business is closed," said Michael Hadley, an attorney with law firm David & Harman LLP in Washington. "Nobody had 30 days advance notice of how bad this was going to be, and how quickly businesses were going to have to shut down."

Trade groups are also looking to help small businesses avoid a partial termination of their plans, which occurs when employers reduce their workforce by more than 20% in a single year. The issue with partial terminations is that participants not yet fully vested in their company contributions would become fully vested when laid off, eliminating a potential source of money that employers often use to fund plan expenses or future contributions, according to industry experts.

"If somebody leaves before they're fully vested, those (non-vested) monies can then be used to offset future employer matching contributions or it can be used to pay for plan fees," said Greg Mykytyn, senior vice president at RIA firm Commerce Street Peak Advisors in Dallas. "If they do a partial plan termination, those non-vested monies that they were using are no longer there to use."

Partial terminations also raise legal questions about whether employers have to vest employees who have been furloughed, a concept that is "somewhat foreign" to most businesses, Mr. Hadley said. Because it's unclear whether furloughed employees have been laid off, the question for regulators and legal experts is whether furloughed workers must be fully vested in the retirement plan, Mr. Hadley said.

To overcome the issue of partial terminations, the ARA is looking for regulatory relief that would give an employer the opportunity to regain the number of participants it laid off or furloughed at a certain date in the future.

The trade group is recommending that "a temporary period for the 2020 plan year be established whereby partial terminations are deemed not to occur if the plan sponsor's business has been affected by the coronavirus emergency and if those employees are rehired by Dec. 31, 2020."

The goal is to rehire the same number of people and not necessarily the same people, Mr.

Hansen said. As plan sponsors wait for regulatory relief, they can in the interim employ "tactical tools" to free up their cash flow while continuing to fund their retirement plan and their company contributions, said Dan Basile, head of retirement product at [Ascensus LLC](#) in Dresher, Pa.

Plan sponsors can, for example, use forfeiture accounts -- the unvested money that employees forfeit to the plan when they leave -- to fund plan expenses and employer contributions, he said. They can also tap ERISA budget accounts, which are plan-level accounts that capture excess income that's collected by a record keeper from investment managers, such as 12b-1 mutual fund fees and other fees that are embedded in the expense ratio of investment funds in the plan.

"They're collected and are in excess of anything that is funding a record-keeping bill or some other plan-level expense bill, and so it's there for the plan sponsor to use for eligible expenses," Mr. Basile said. Business owners can also immediately stop their contributions to their own retirement accounts, Mr. Mykytyn said. "If they are over 50 years old and they have, say, 26 pay periods, they're probably putting in about \$2,000 a month in order to get to that \$26,000 (IRS) limit. So right there, that frees up \$2,000," he said.

In addition, sponsors can shift any record-keeping, administration and investment adviser fees that they pay out-of-pocket to participants. "If they are in trouble financially, and they are currently paying those fees, they can change the fee structure to where they're now deducted from participant accounts rather than having to pay that themselves," Mr. Mykytyn said.

Mr. Basile, who also discusses with clients the possibility of shifting fees onto the plan, sees the option as a difficult one, much like the decision to suspend employer contributions. "Nevertheless," he said, "they do preserve the ability for plan participants to continue to avail themselves of the numerous other benefits that a retirement plan offers." Margarida Correia, *Pension & Investments*, April 20, 2020.

8. WHAT TO DO IF YOUR EMPLOYER SUSPENDS MATCHING CONTRIBUTIONS IN YOUR 401(K):

Working for a living has its perks. There's the paycheck, for one. And, equally important, are the health benefits and those free contributions to your 401(k). Unfortunately, those company-funded deposits to your retirement account may not be around forever.

Companies globally are struggling to adjust to a mass slowdown of economic activity, as people stay inside to contain COVID-19. Travel and hospitality businesses have been hit

particularly hard, and those business leaders are looking for ways to stay solvent through the crisis. One expense that's on the chopping block is the employer-funded 401(k) matching contribution. Travel-booking company Sabre, Marriott International, Amtrak, and Macy's have all announced delays, reductions, or suspensions to their 401(k) matching programs.

According to a [2019 Vanguard report](#), the average employer-match contribution is 4.3% of employee pay. That's \$2,150 in free money annually for every \$50,000 of income. There's no good way to spin that loss; it slows down your retirement savings, plain and simple. If your employer announces a suspension of matching contributions, take these three steps now to keep those retirement savings on track.

Check your retirement savings progress

If you're saving 15% of your income and you have 10 years or more until retirement, a short-term suspension of employer-match shouldn't change your timeline. The suspension does become problematic if you're currently behind on your retirement savings -- because at that point, every penny counts.

One simple way to evaluate your savings progress is to lean on experts' age-based savings benchmarks. Fidelity, for example, recommends you save:

- One year's salary by age 30
- Three years' salary by age 40
- Six years' salary by age 50
- Eight years' salary by age 60
- 10 years' salary by age 67

Assuming your salary is \$60,000 today, you should have around \$180,000 in your 401(k) by your 40th birthday. At age 67, you're aiming for \$600,000 in savings. If those numbers are vastly higher than your reality, don't shrug off the loss of those employer-match contributions. You'll need to update your retirement savings plan to catch up.

Consider other places to save

To start, decide if your 401(k) is the best place for you to increase contributions right now. Without employer-matching contributions, your 401(k) still has the perks of tax-deferred earnings and tax-free contributions. But you can get those same tax advantages by saving in a HSA if you qualify. You're eligible for a HSA or [Health Savings Account](#) if you carry a high-deductible health plan with an individual deductible of at least \$1,400, or a family deductible of at least \$2,800. In 2020, you can contribute up to \$3,550 to a HSA as an

individual, or up to \$7,100 as a family.

Your HSA delivers one tax benefit the 401(k) doesn't, and that's tax-free withdrawals for qualified medical expenses. Considering that the average retired couple is estimated to spend nearly \$300,000 out-of-pocket on healthcare costs, that tax benefit could be significant over your lifetime.

Another strong competitor to the 401(k) is a Roth IRA. Roth IRA contributions are not tax-free. But unlike the 401(k), you can withdraw your Roth contributions at any time without taxes or penalties.

Having access to your funds in an emergency is an advantage if you're worried about losing your job in the near term. Earnings in a Roth IRA are tax-free, too, as long as you don't withdraw them until age 59 and a half. And, relative to your 401(k), you may find better investment options within a Roth IRA.

Roth IRA contributions are subject to income limitations. If you make less than \$139,000 as a single filer or \$206,000 as a married filer, you can contribute up to \$6,000, plus an extra \$1,000 in catch-up contributions if you're 50 or older.

Increase your own contributions

Once you land on the right place to save, increase your retirement account contributions by at least what you've lost from the suspension of employer-match. And if your savings aren't tracking close to those age-based benchmarks, go with an even larger increase.

Don't let market conditions scare you off, either. Equities today are priced well below their historic highs. That means your higher contributions now are positioned well to benefit from an eventual market recovery.

Come back to your 401(k) when employer-match returns.

If you do lose your employer match in this economy, it's likely a temporary situation. Plan on reevaluating your retirement contributions once that employer-match returns. There aren't too many definitive rules of retirement saving, but this is one to remember: You should always max out your employer match. It's free money. Catherine Brock, The Motley Fool, www.nasdaq.com, April 11, 2020.

9. IN ONE MONTH, CORONAVIRUS HAS SET OFF MORE MASS LAYOFFS IN FLORIDA THAN THE STATE HAD IN ALL OF 2019:

In one month, coronavirus has triggered more mass layoffs and furloughs in Florida than

the state saw in all of 2019. Already, it's almost more mass job losses than Florida experienced over the past two years combined.

The numbers, based on an Orlando Sentinel analysis of state data, paint yet another grim picture of the toll the coronavirus outbreak has taken on a Florida workforce that just two months ago was experiencing the lowest unemployment rate in its history. As of 5 p.m. Thursday, 23,867 workers were caught in one of the mass job cuts hitting Florida employers due to coronavirus between March 19 and April 21, the most recent date for which data has been filed with the state. That's compared to 13,002 in all of 2019 and 17,886 in all of 2018. About 72% of coronavirus-related mass layoffs and furloughs are in the hotel and restaurant industry, as well as the arts, entertainment and recreation sector, and 42% are in the Central Florida region, including the Tampa Bay area.

The biggest cuts: More than 1,400 workers at Feld Entertainment, the show production company behind Disney on Ice and Monster Jam; 1,206 at the YMCA; 835 at the Four Seasons Orlando at Walt Disney World; 684 at Miami International Airport; and 560 at the Trump National Doral Miami Resort. The numbers are expected to grow. They're based on federally required notices companies must file with the state in the event of a layoff impacting 500 or more employees, or 50 or more employees if they are at least a third of the workforce, as well as furloughs expected to last six months or more. The Department of Economic Opportunity keeps the data, which is updated in real-time as the state receives the notices, and it's changing rapidly.

The numbers won't include the likely more than 70,000 Disney workers who were furloughed beginning this week, Disney said. DEO does not retain a copy of the layoff notices from the recession, known as the Worker Adjustment and Retaining Notification Act (WARN), but according to an Orlando Sentinel report from late 2009, the number of companies filing notices peaked that year in March with 36 filings.

In March 2020, there were 126 filings related to coronavirus alone. The numbers are the most up-to-date reflection of the situation in Florida. The most recent unemployment figures have not yet reflected the worst weeks of job losses and the state's unemployment claims data is likely underreporting the scale of the issue because thousands of workers have struggled to apply on Florida's system, which has been widely criticized for its technical deficiencies.

Nationally, about 1 in 10 workers who applied for unemployment last week were Floridians, or 505,000 people, according to the U.S. Department of Labor. Roger Lear, president of OrlandoJobs.com, said traffic to his site has increased at least 50% while

workers look to snatch up any available openings. And, he's seen a record number of applications at a [virtual job fair](#) OrlandoJobs has been hosting. The fair, which started with about 40 employers was extended through the end of the month to accommodate about 100 businesses, many of them companies such as Publix and Pizza Hut, that are adding temporary jobs to manage increased demand created by coronavirus. "We are used to watching statistics and on jobs that typically would not get a lot of resumes, they are getting a lot of resumes and applications," Lear said. There is some good news: In a survey Lear conducted of 81 local employers, many of them large companies, 48% said they were still hiring. Many of the employers Lear has spoken to have said they are hoping to hire their employees back when coronavirus concerns subside.

But those are typically big businesses, and the same won't be true for all small business owners who can't hang on. Even Lear's company likely won't be able to sustain itself without some federal aid. He's hoping to have better luck in a second wave of loans in the national Paycheck Protection Program. "We haven't billed \$1 in 47 days. If we don't get it, what is my incentive to keep these employees?" Lear said. "When we come back from this, a lot of companies will not exist any longer."

Unemployment uncertainty

As of Wednesday, 688,723 Floridians were living the reality of filing for unemployment in the weeks since coronavirus started to trigger mass layoffs. Former Disney worker Ty Menard was temporarily laid off from his job with Cirque du Soleil in Disney Springs on March 17. The company filed 151 layoffs at its Disney site, including two stage managers, like Menard - plus 59 at its Universal site and 17 in South Florida. Like many people thrust into the uncertainty of Florida's unemployment system, Menard wanted answers. So he set up the [COVID19 - Unofficial FL Unemployment Support Group](#) at the end of March. Now, nearly a month later, it has exploded. The group ballooned to encompass nearly 12,000 members, many of them Disney workers trying to understand what comes next.

The company has committed to [automatically enrolling its workers into the system](#), but it appears that enrollment will happen in waves, Menard said. He worked a decade at Disney until December, most recently working on show development and production, and many of his former coworkers joined the confused gaggle of newly unemployed in the past few weeks as furloughs began for non-unionized Disney cast members. The group has grown to encompass workers from across the state frustrated with Florida's slow release of information and unemployment benefits. As of Wednesday, only 17% of the state's unemployment claims filed since March 15 had been paid.

“It’s heartbreaking knowing they’re going through this and they don’t even know where their next dinner is going to be coming from,” said Menard, who spends 12 to 18 hours a day fielding comments and questions on the Facebook page. He’s helped fill a need where the state has failed so many. But it’s draining work. Menard has some savings that will hold him through maybe two more months, but it “might be down to rice and beans soon,” he said, as it gets harder to live with no income.

“There are days [on the Facebook group] where it’s nothing but negativity and I barely see the positive,” Menard said. “You want to be sympathetic and empathetic, while at the same time dealing with your situation. I’m maybe not in the same boat, but I’m in the same storm.” That storm has hit entire households, like Chelsea Panek and her husband, Glenn. Both work at Disney, she at the Pop Century Resort in cast recognition and appreciation, and he at Epcot in entertainment. Both got furloughed. The Paneks will be able to stay afloat for some time but like for many, uncertainty reigns.

“I don’t know when I’m going to see a check and I guess that’s the most concerning part,” Panek said. “When you don’t know if you’re going to see a check until you get back to work, that’s very disheartening.” Luckily, Panek is fiercely positive. “I hope everyone comes out on the other side of this being more empathic, being more caring about the people around them, being a little less distracted about what’s going on in the world,” she said. It’s part of the reason she loves working at Disney. Her job is about making magic for the cast members, many of them low-wage workers who have a fundamental role to play in Orlando’s economy. Now, with so many of them out of work - about 29% of workers who applied for unemployment in Florida were hotel, restaurant or recreation workers - their importance is magnified.

“I just want to get back to making magic. I just want to be back there to make people’s lives better,” Panek said. “When people come to Disney, they forget about the outside world. We want to be that place again for people.” Chabeli Carrazana, Orlando Sentinel, www.orlandosentinel.com, April 24, 2020.

10. THE 2020 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 2019, Medicare covered 61.2 million people: 52.6 million aged 65 and older, and 8.7

million disabled. About 37 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 2019 were \$796.2 billion, and total income was \$794.8 billion, which consisted of \$785.7 billion in non-interest income and \$9.1 billion in interest earnings. Assets held in special issue U.S. Treasury securities decreased by \$1.4 billion to \$303.3 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. HI expenditures are projected to be lower than last year's estimates because of lower-than-projected 2019 spending, lower projected provider payment updates, and incorporation of time-to-death into the demographic factors used in the projection model.⁶ Partially offsetting this decrease in expenditures is higher projected spending growth for Medicare Advantage beneficiaries.

In 2019, HI expenditures exceeded income by \$5.8 billion. The Trustees project deficits in all future years until the trust fund becomes depleted in 2026. The assets were \$194.6 billion at the beginning of 2020, representing about 55 percent of expenditures projected for 2020, 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 4.0 percent annually over the last 5 years, compared with non-interest income growth of 4.7 percent. Over the next 5 years, projected average annual growth rates for expenditures and noninterest income are 6.5 percent and 5.2 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 2020 is \$144.60.

Part B and Part D costs have averaged annual growth rates of 6.9 percent and 4.5 percent, respectively, over the last 5 years, as compared to growth of 4.1 percent for GDP. The Trustees project that cost growth over the next 5 years will average 8.2 percent for Part B and 7.3 percent for Part D, significantly faster than the projected average annual GDP growth rate of 4.3 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 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 2022 Budget and (ii) requires Congress to consider the legislation on an expedited basis. This is the fourth consecutive year that a determination of excess general revenue Medicare funding has been issued, and the third consecutive year that a Medicare funding warning has been issued.

Long-Range Results

For the 75-year projection period, the HI actuarial deficit has decreased to 0.76 percent of taxable payroll from 0.91 percent in last year's report. (Under the illustrative alternative projections, the HI actuarial deficit would be 1.58 percent of taxable payroll.) Several factors contributed to the change in the actuarial deficit, most notably lower costs in 2019 than expected (+0.07 percent) and the incorporation of time-to-death into the demographic factors (+0.42 percent) used in the projection model. These improvements are partially offset by higher projected spending for Medicare Advantage beneficiaries (-0.12 percent), legislation (-0.10 percent), and other changes (-0.12 percent).

Part B outlays were 1.7 percent of GDP in 2019, and the Board projects that they will grow to about 3.5 percent by 2094 under current law. The long-range projections as a percent of GDP are somewhat higher than those projected last year primarily due to higher spending for Part B drugs and higher spending for Medicare Advantage enrollees. (Part B costs in 2094 would be 4.6 percent under the illustrative alternative scenario.)

The Board estimates that Part D outlays will increase from 0.5 percent of GDP in 2019 to about 1.0 percent by 2094. These long-range outlay projections, as a percent of GDP, are slightly lower than those shown in last year's report primarily because of slower overall drug price increases and higher direct and indirect remuneration.

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 2019 and are projected to increase to approximately 3.1 percent in 2094. (SMI general revenues in 2094 would be 3.9 percent under the illustrative alternative scenario.)

Conclusion

Total Medicare expenditures were \$796 billion in 2019. 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, spending will increase from 3.7 percent in 2019 to 6.5 percent by 2094 (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 8.5 percent of GDP in 2094. Growth under either of these scenarios 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. The full report is available [here](#). U.S. Centers for Medicare & Medicaid Services, www.cms.gov, April 2020.

11. MEDICARE FINANCES: FINDINGS OF THE 2020 TRUSTEES REPORT:

Summary: Medicare provides health insurance coverage to about 61 million Americans – 52.6 million ages 65 and older and 8.7 million persons with disabilities - and is one of the nation's largest sources of health coverage. Close to 20 percent of U.S. health expenditures flow through Medicare, which provides coverage for about one of every six people residing in the U.S. Medicare's finances are managed through two trust funds: the Hospital Insurance (HI) Trust Fund (which pays for Part A benefits) and the Supplementary Medical Insurance (SMI) Trust Fund (which pays for Part B and Part D benefits). Each year, the Medicare Trustees give a detailed account of the expected condition of the program's two trust funds over both the short and long terms.

According to the 2020 Medicare Trustees Report, expenditures from Medicare's HI Trust Fund exceeded revenues by \$5.8 billion in 2019. Without a policy change aimed at increasing revenues or reducing expenditures, the surplus that has accumulated in the HI Trust Fund over the years will be depleted by 2026. The HI Trust Fund will have to rely on the annual revenue from Medicare payroll taxes and to a lesser extent its other sources of income, which together are projected to cover 90 percent of annual expenditures in 2026. The solvency of the HI Trust Fund is separate and apart from the program's impact on the federal budget and the continued affordability of beneficiary cost-sharing.

The projected solvency date for the HI Trust Fund is 2026, unchanged from last year. The 75- year actuarial deficit for the HI Trust Fund has decreased from 0.91 percent to 0.76 percent of taxable payroll in this year's report and is equivalent to 0.3 percent of GDP through 2094. Part B and Part D benefits are not at risk of insolvency because financing is derived through beneficiary premiums and cost-sharing requirements with general revenues filling the gap. The full report is available [here](#). Bethany Cole, National Academy of Social Insurance, Health Policy Brief No. 16, April 2020.

12. TAXPAYERS WITH A FILING REQUIREMENT MUST FILE A TAX RETURN TO GET AN ECONOMIC IMPACT PAYMENT:

While most eligible taxpayers don't need to take any action to receive an [Economic Impact Payment](#), some people will. This includes those who are required to file and haven't filed a tax return for either 2018 or 2019. Here are some facts for eligible taxpayers who need to - and haven't - filed a tax return for 2018 or 2019.

- Eligible taxpayers with a [filing requirement](#) who haven't filed a tax return for 2018 or 2019 must file for 2019 to get an Economic Impact Payment.
- Taxpayers should file electronically and include direct deposit information to get their Economic Impact Payments faster.
- The \$1,200 payments will automatically be sent to those who receive Social Security, railroad retirement or Social Security Disability Insurance (SSDI and SSI) and veteran's benefits but, don't normally file a tax return. However, to add the \$500 per eligible child amount to these payments, the IRS needs the dependent information before the payments are issued. Otherwise, their payment at this time will be \$1,200 and, by law, the additional \$500 per eligible child amount would be paid in association with a return filing for tax year 2020.
- Other people who don't normally file – including those with low income or no

income – should use the [Non-Filers: Enter Payment Info Here](#) tool to give the IRS basic information so they can their payment as soon as possible.

Questions? The IRS is regularly updating the [Economic Impact Payment](#) and the [Get My Payment tool](#) frequently asked questions pages on IRS.gov as more information becomes available.

Taxpayers concerned about visiting a tax professional or community organization for help with their taxes should remember the payments will be available throughout the rest of 2020.

The IRS encourages taxpayers to share this information with family and friends. Some people who normally don't file a tax return may not realize they're eligible for an Economic Impact Payment. IRS COVID Tax Tip 2020-45, www.irs.gov, April 23, 2020.

13. A LESSON FOR TODAY:

What's the difference between a Defined-Benefit Pension Plan and a Defined-Contribution Plan?

Employer-sponsored retirement plans are divided into two categories of plans: defined-benefit pension plans and defined-contribution plans. As the names imply, a defined-benefit pension plan provides a specified payment amount in retirement while a defined-contribution plan allows employees and employers to contribute and invest funds over time to save for retirement.

These key differences determine which party - the employer or employee - bears the investment risks and affects the cost of administration for each plan. These types of retirement accounts are also known as "[superannuations](#)." To learn more about types of retirement plans, visit the U.S. Department of Labor's [webpage](#). INVESTOPEDIA, www.investopedia.com.

14. DID YOU KNOW ALBERT EINSTEIN SAID THIS?:

Education is what remains after one has forgotten what one has learned in school.

15. INSPIRATIONAL QUOTE:

"Don't let the fear of losing be greater than the excitement of winning." -*Robert Kiyosaki*

16. TODAY IN HISTORY:

On this day in:

- 1996, US President Clinton approves the sale of \$227 million of crude oil from the Strategic Petroleum Reserve - US gas prices are at their highest levels in 5 years;
- 1974, US President Richard Nixon hands over partial transcripts of Watergate tape recordings; and
- 1789, George Washington is inaugurated as the first President of the United States of America.

17. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT. (See, item no. 13.)