



CYPEN & CYPEN NEWSLETTER for February 27, 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. FDIC AND OCC ANNOUNCE 30-DAY EXTENSION OF COMMENT PERIOD FOR PROPOSED CHANGES TO COMMUNITY REINVESTMENT ACT REGULATIONS:

The Federal Deposit Insurance Corporation (FDIC) and Office of the Comptroller of the Currency (OCC) [extended the public comment period for proposed changes to the regulations implementing the Community Reinvestment Act \(CRA\)](#) until April 8, 2020. On December 12, 2019, the FDIC and OCC announced a proposal to modernize the regulations under the CRA and provided for a 60-day comment period following formal publication on January 9, 2020 in the [Federal Register](#) (85 FR 1204). The FDIC and OCC have now determined that a 30-day extension of the comment period is appropriate. The proposed regulations are intended to increase bank activity in low and moderate-income communities where there is significant need for credit, more responsible lending, and greater access to banking services. The proposal will clarify what qualifies for credit under

the CRA, enabling banks and their partners to better implement reinvestment and other activities that can benefit communities. The agencies will also create an additional definition of "assessment areas" tied to where deposits are located--ensuring that banks provide loans and other services to low and moderate-income persons in those areas. The proposed CRA regulations would apply to federally insured depository institutions supervised by the FDIC and OCC, which conduct approximately 85 percent of all CRA activity.

Media Contacts:

Julianne Fisher Breitbeil FDIC 202.898.6534

Bryan Hubbard OCC 202.649.6870

Federal Deposit Insurance Corporation, FDIC: PR-13-2020, February 20, 2020.

2. ORLANDO POLICE OFFICER WHO SUFFERED PTSD AFTER PULSE MASSACRE GRANTED RETIREMENT, PENSION:

Police pension board members voted unanimously Thursday to grant disability retirement and a lifelong pension to Orlando police Officer Alison Clarke, who developed post-traumatic stress disorder following the Pulse massacre. Clarke was nearly fired from OPD in November as she awaited the pension board's decision, because her application had been pending for 180 days, the time limit set by the agency's union contract for officers to either win their pension or face termination. But during a Nov. 8 meeting, Clarke was offered the option to take unpaid leave, which she chose. The firing wouldn't have had an impact on her retirement application, but Clarke said she didn't want to leave the agency that way. "I've given everything that I can give to this department and I didn't want to go out with anything less than a retirement," she said. She stopped receiving pay after Nov. 23, she said. The decision Thursday, which assures Clarke 80% of her salary for the rest of her life, also grants her back-pay to Dec. 1. OPD's attorney, David Margolis, said during the hearing he "agreed with virtually everything" Clarke's pension attorney said in opening statements: Clarke had been involved in multiple traumatic events as a cop, which had a cumulative effect that led doctors to declare her "psychiatrically disabled." He called the case "complicated factually," because Clarke's condition wasn't triggered by just one event, and she continued working for more than a year after the 2016 mass shooting at Pulse nightclub, the event for which she initially sought psychiatric help. Clarke's attorney, Marcella Bouchard, said Clarke had trouble sleeping after Pulse and began experiencing irritability, anger, hypervigilance and anxiety. Clarke watched multiple victims perish at Pulse June 12, 2016 and worked a shift at a hospital the next day, Bouchard said. Forty-nine people died in the shooting and dozens of others were wounded. She went to counseling for her symptoms and continued working. But her condition worsened after the January 2017 death of OPD Lt. Debra Clayton, who was shot and killed outside of a

Walmart near College Park, Bouchard said. Clarke responded to the scene, where she “witnessed her colleague and friend mortally wounded,” Bouchard said. In a psychiatric evaluation of Clarke completed Nov. 20, a doctor described Clarke’s mental condition as having been “significantly exacerbated” after Clayton’s death. “In Ms. Clarke’s first high-stress confrontational call following the death of Lt. Clayton, she had a severe stress reaction with prolonged panic attack,” the doctor wrote. The doctor concluded that Clarke’s PTSD “was caused and compounded by repeat exposure to traumatic events” and that she was “totally and permanently disabled from serving in any first responder capacity.” Before the unanimous vote Thursday, board member and OPD Detective Michael Fields questioned why Clarke attended a homicide conference while seeking treatment for PTSD symptoms. Clarke choked up while answering, something she said later was indicative of her mental state. “I went somewhere to be part of being a police officer again,” she responded. “I made sure I was outside of the conference, interacting with other people who were also police officers, so I could feel a part of something.” After the meeting, Clarke said her cool demeanor in stressful situations used to be something she took pride in and believed made her a better police officer. Now, her emotions “go from zero to 100, quickly,” she said. “That’s not there anymore, so that’s why I knew I wouldn’t be able to go back to the road,” she said. Labor Relations Information System (LRIS), From Officer.com, February 19, 2020.

3. IRS PROVIDES ANSWERS AND A SAFE HARBOR ON CARBON CAPTURE CREDITS:

The Internal Revenue Service today issued guidance to help businesses understand how legislation passed in 2018 may benefit those claiming carbon capture credits. Today’s guidance addresses the definition of “beginning of construction” and provides a safe harbor for partnership allocations of the credit. After the enactment of the Bipartisan Budget Agreement in February 2018, the IRS issued [Notice 2019-32](#) requesting comments from taxpayers regarding the changes to the carbon capture credit in the new law. After carefully considering the comments, the IRS is issuing guidance to provide clarity, especially regarding the definition of “beginning of construction.” In [Notice 2020-12](#), the IRS provides guidance to help businesses determine when construction has begun on a qualified facility or on carbon capture equipment that may be eligible for the carbon capture credit. This notice provides broad guidance in lieu of taxpayers requesting private letter rulings in this area. In [Revenue Procedure 2020-12](#), the IRS creates a safe harbor for the allocation rules for carbon capture partnerships similar to the safe harbors developed for partnerships receiving the wind energy production tax credit and the rehabilitation credit. The safe harbor simplifies the application of carbon capture credit rules to partnerships able to claim the credit. The IRS anticipates issuing further guidance in the near future on issues ranging from secure geological storage to utilization to

recapture of the credit for those claiming credits for carbon capture. IRS Newswire, Issue Number: IR-2020-35, February 19, 2020.

4. SECURE ACT – DEFINED BENEFIT PLANS:

As described in our previous articles ([Changes and Opportunities for Retirement Plans](#), [Broad Implications for Retirement Plans](#), and [Provisions Unique to 403\(b\) Plans, Governmental 457\(b\) Plans, and IRAs](#)), the Setting Every Community Up for Retirement Enhancement Act of 2019 (the “SECURE” Act) has broad implications for retirement plans. Although the Act’s primary focus is on defined contribution plans, several provisions of the Act and its sister legislation apply only to defined benefit plans. This is the fourth in a series of articles describing key provisions of the legislation. Our emphasis in this article is on the provisions that are unique to defined benefit plans.

Earlier In-Service Withdrawal Age

The Further Consolidated Appropriations Act, 2020, which includes the SECURE Act, also includes the Bipartisan American Miners Act of 2019. This sister legislation amends Code Section 401(a)(36) to lower the age at which in-service withdrawals may be taken from defined benefit plans.

- Plans Affected: Defined benefit plans
- Optional or Required: Optional
- Effective Date: Plan years beginning on or after January 1, 2020
- Comments and Recommendations: Employers may now allow in-service withdrawals at age 59½ (rather than age 62). Employers choosing to add such an option (or to modify an existing provision) will need to revise participant communications, notices, and forms to reflect the appropriate information. In addition, employers must adopt a plan amendment in connection with implementing (or revising) this withdrawal option.

Increased Required Beginning Date Age

Prior to the passage of the SECURE Act, plans were required to begin making required minimum distributions (“RMDs”) by April 1 of the calendar year following the later of the calendar year in which an employee attained age 70½ or the calendar year in which the employee terminated employment. The Act amends Code Section 401(a)(9)(C) to increase this age to 72.

- Plans Affected: Defined benefit plans
- Optional or Required: Required
- Effective Date: Applies to individuals who reach age 70½ on or after January 1,

2020.

- **Comments and Recommendations:** An individual who attained 70½ prior to January 1, 2020, is required to begin RMDs under the prior rule. An individual who reaches age 70½ on or after January 1, 2020, however, is required to begin RMDs by April 1 of the calendar year following the later of the calendar year in which the employee attains age 72 or terminates employment.

The Tax Code also requires that if an employee continues to work after he or she attains age 70½, a defined benefit plan must provide for an actuarial increase to his or her accrued benefit for the period after age 70½ until the employee retires. The SECURE Act did not amend this portion of the Tax Code. Thus, the age at which a defined benefit plan must provide an actuarial increase remains 70½. In connection with the RMD rules, employers should update participant communications, forms, and notices (including the special tax notice under Code Section 402(f)) to ensure that such materials accurately describe the new rules, and to ensure that distributions are treated appropriately for tax purposes. Plan amendments also must be adopted.

Nondiscrimination Testing and Participation Relief

As the cost of funding defined benefit plans has increased, many employers that sponsor such plans have taken action to limit future benefit accruals under them. Over time, however, these plans may find it difficult to satisfy the Tax Code's nondiscrimination and minimum participation requirements. The SECURE Act offers relief from these testing requirements for certain closed or frozen defined benefit plans. Employers that elect to limit future benefit accruals generally do so in one of two ways: (1) closing the plan to any new participants, so that participation is limited to a specific group of existing participants as of a specific date, who continue to accrue benefits (this is sometimes called a "soft freeze" or a "closed" plan); or (2) amending the plan to suspend any new benefit accruals for all participants (this is sometimes referred to as a "hard freeze" or "frozen" plan). Both soft-frozen and hard-frozen plans can experience compliance testing issues over time as the participant population becomes older or decreases in size. The SECURE Act provides nondiscrimination and participation testing relief for such plans, subject to specific requirements.

- **Plans Affected:** Defined benefit plans
- **Optional or Required:** Optional
- **Effective Date:** Immediate

Benefits, Rights and Features

A soft-frozen defined benefit plan limits future benefit accruals to a select group of

“grandfathered” employees. Over time, the composition of the group that continues to accrue benefits may shift, so that it consists of more highly compensated employees. As a result, it becomes more difficult for the plan to satisfy the Code Section 401(a)(4) benefits, rights and features test. Under the SECURE Act, however, a defined benefit plan is deemed to pass this test if it was closed before April 5, 2017. A plan that was closed after that date is also deemed to satisfy the benefits, rights, and features test if: (1) the plan satisfied these nondiscrimination requirements in the plan year that it was closed and the two subsequent plan years; (2) the plan is not later amended to significantly favor highly compensated employees (e.g., by modifying the closed class or changing the benefits, rights, and features available to them under the plan); and (3) the plan did not have a substantial increase in coverage or in the value of benefits during the five-year period before the closure date.

Benefit Accrual Basis

Employers that sponsor both a defined benefit plan and a defined contribution plan may aggregate those plans when performing nondiscrimination and coverage testing. Testing the aggregated plan as if it were a defined benefit plan (that is, on a “benefit accrual basis”) sometimes improves the chances of satisfying these tests. However, current regulations make it difficult to use this approach. The SECURE Act allows an employer with a defined contribution plan and a closed or frozen defined benefit plan to aggregate the plans and test the aggregated plan on a benefits basis in some cases. The defined contribution plan must: (1) provide for contributions to make up (in part) for the loss of benefits the defined benefit plan participants expected to earn under the closed or frozen defined benefit plan; (2) pass the nondiscriminatory classification test for the plan year of the closure and the two subsequent plan years; and (3) not be amended later to significantly favor highly compensated employees. In addition, the defined benefit plan cannot have a substantial increase in coverage or in the value of benefits during the five-year period before the closure date. Defined benefit plans that were closed before April 5, 2017, are deemed to satisfy these requirements.

Minimum Participation

Closed or frozen defined benefit plans may also have difficulty satisfying the Code Section 401(a)(26) minimum participation requirements as participation in the plan decreases over time due to death or retirement. Under the SECURE Act, a plan is deemed to satisfy the minimum participation requirement if it was closed before April 5, 2017. A plan that was closed after that date may also be deemed to satisfy the minimum participation test if it: (1) is amended to freeze all benefit accruals, or provide future benefit accruals to only a closed class of participants; (2) satisfied the minimum participation test as of the effective date of the closure or benefit freeze; and (3) did not have a substantial increase in

coverage or in the value of benefits during the five-year period before the closure date. The testing relief described above is already effective. Employers may elect to apply these provisions to plan years beginning on or after January 1, 2014.

Plan Amendments and Administrative Changes

While the impact of the SECURE Act on defined benefit plans is more limited than on other retirement plans, implementing the applicable changes – required and optional – can be complex. Plans generally must be amended to include the mandatory SECURE Act changes by the end of the first plan year beginning on or after January 1, 2022. (For collectively bargained and governmental plans, the amendment deadline is January 1, 2024).

Beth Miller, Lexology, February 14, 2020.

5. U.S. DEPARTMENT OF LABOR CITES NEW YORK COOKIE MANUFACTURER FOR EXPOSING EMPLOYEES TO FALLS AND OTHER HAZARDS:

The U.S. Department of Labor's Occupational Safety and Health Administration (OSHA) has cited Nonni's Foods LLC for exposing employees to falls and other hazards at the Ferndale, New York, facility. The manufacturer of premium cookies faces \$221,257 in penalties. OSHA opened an inspection on Aug. 22, 2019, after learning that an employee fell on Aug. 7, 2019, and was hospitalized. Inspectors discovered that the employer instructed employees to retrieve stored material by standing on the forks of a forklift that elevated them to a storage area atop a break room. The storage area lacked guardrails to prevent falls. Both conditions exposed employees to falls. Nonni's Foods LLC also failed to re-train operators on appropriate use of a forklift, and did not report the employee's injury to OSHA within 24 hours as required. Additionally, two rotating bearings on a conveyor lacked guarding to protect employees against caught-by injuries. "Employers must provide training, and utilize appropriate equipment and work practices to protect workers from falls and amputations," said OSHA Albany Area Director Amy B. Phillips. OSHA's [Fall Protection in General Industry](#) fact sheet summarizes employee fall protection measures and the [Powered Industrial Trucks](#) page provides detailed information on hazards, safeguards, training and safe operation of forklifts. OSHA's [Safeguarding Equipment and Protecting Workers from Amputations booklet](#) provide information on identifying and managing common amputation hazards when operating and using stationary equipment. Nonni's Foods LLC has 15 business days from receipt of the [citations](#) and penalties to comply, request an informal conference with OSHA's area director or contest the findings before the independent Occupational Safety and Health Review Commission. Under the Occupational Safety and Health Act of 1970, employers are responsible for providing safe and healthful workplaces for their employees. OSHA's role is to help ensure these conditions for America's working men

and women by setting and enforcing standards, and providing training, education and assistance. For more information, visit <http://www.osha.gov>. The mission of the Department of Labor is to foster, promote and develop the welfare of the wage earners, job seekers and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights. Ted Fitzgerald, James C. Lally, Occupational Safety & Health Administration, 20-250-NEW, U.S. Department of Labor, February 13, 2020.

6. CHASING NEW BOND FACTORS 'MIGHT BE FUTILE':

Asset managers have found fixed income factors -- systematic sources of bond returns -- to be fertile ground for product development. But new research from Dimensional Fund Advisors, a pioneer in factor-based funds, finds that investors only need two factors -- forward rates and a bond issuer's stock returns -- to evaluate fixed income investments. Almost every other variable, including bond momentum and leverage, is irrelevant, according to Dimensional. "There are several recent papers that propose alternative variables to explain differences in expected returns across bonds, and use them in implementation," Savina Rizova, Dimensional's head of research and one of the paper's authors, said in an interview with *Institutional Investor*. "But it's important not to look at these variables in isolation, but within the context of what we already have, which is forward rates." A forward rate is the combined yield and expected capital appreciation of a bond based on current market prices. According to Rizova, forward rates are "well documented as a useful metric for targeting bonds with higher expected returns." For example, University of Chicago Professor Eugene Fama, a Nobel Laureate who is a director and consultant at Dimensional, did original research on forward rates in the 1970s and 1980s. Dimensional's new study, entitled "[The Cross Section of Corporate Bond Returns](#)," confirmed the value of the forward rate. It also found that the default-adjusted credit spread, a popular assessment of value calculating a bond's credit spread relative to the issuer's chances of defaulting, does not add any signal above the forward rate. The quantitative asset manager did find that the recent performance of a bond issuer's stock contains information beyond what is found in the forward rate. If a company's stock underperforms the overall market in one month, Dimensional found that the issuer's bonds tend to underperform in the following month. Although the finding itself isn't new, Dimensional was able to determine how long the information in the metric lasts, which is a much shorter time period than the signal in the forward rate. "While short-term equity returns provide insight into expected bond returns, our research shows this insight to be somewhat ephemeral -- its short term nature means using it in isolation to drive trading decisions could lead to high, and potentially costly, turnover for investors," the firm said in a [blog post](#) on Wednesday. Dimensional's study examined the performance of more than 7,000 U.S. dollar-denominated investment-grade and high-yield corporate bonds from

January 2000 to December 2018. The study's four authors tested 14 variables to assess whether they contained information about future bond returns. Other variables studied included short-term credit premium, credit momentum, market capitalization, total public debt outstanding, book-to-market, profitability, distance to default, short-term equity return, and equity momentum. "We are experiencing a fundamental shift to systematic investing," Rizova said. "Systematic investing typically implies using quantitative variables -- sources of information -- to target higher expected returns whether in equities or fixed income." The rise in popularity of systematic fixed income investing has spurred a similar increase in research of different variables, Rizova said. "With more interest in that type of investing, which is more transparent, more reliable, and easy to monitor, there has been more effort to identify additional sources of systematic information," she said. "Some variables in our study do not appear to contain any reliable information, so if you are pursuing them to get higher expected returns by emphasizing bonds with these characteristics, it might be futile." Julie Segal, Institutional Investor, February 12, 2020.

7. TAXPAYERS SHOULD KNOW THE DIFFERENCE BETWEEN STANDARD AND ITEMIZED DEDUCTIONS:

It's a good idea for people to find out if they should file using the standard deduction or itemize their deductions. Deductions reduce the amount of taxable income when filing a federal income tax return. In other words, they can reduce the amount of tax someone owes. Individuals should understand they have a choice of either taking a standard deduction or itemizing their deductions. Taxpayers can use the method that gives them the lower tax. Due to tax law changes in the last couple years, people who itemized in the past might not want to continue to do so, so it's important for all taxpayers to look into which deduction to take. Here are some details about the two methods to help people understand which they should use:

Standard deduction

The standard deduction amount adjusts every year and can vary by filing status. The standard deduction amount depends on the taxpayer's filing status, whether they are 65 or older or blind, and whether another taxpayer can claim them as a dependent. Taxpayers who are age 65 or older on the last day of the year and don't itemize deductions are entitled to a higher standard deduction. Most filers who use [Form 1040 or Form 1040-SR, U.S. Tax Return for Seniors](#), can find their standard deduction on the first page of the form.

Taxpayers who can't use the standard deduction include:

- A married individual filing as married filing separately whose spouse itemizes

deductions.

- An individual who files a tax return for a period of less than 12 months. This could be due to a change in their annual accounting period.
- An individual who was a nonresident alien or a dual-status alien during the year. However, nonresident aliens who are married to a U.S. citizen or resident alien can take the standard deduction in [certain situations](#).

Itemized deductions

Taxpayers may need to itemize deductions because they can't use the standard deduction. They may also itemize deductions when this amount is greater than their standard deduction. Taxpayers who itemize file [Schedule A, Form 1040, Itemized Deductions](#) or [Form 1040-SR, U.S. Tax Return for Seniors](#).

A taxpayer may benefit by itemizing deductions for things that include:

- State and local income or sales taxes
- Real estate and personal property taxes
- Mortgage interest
- Mortgage insurance premiums
- Personal casualty and theft losses from a federally declared disaster
- Donations to a qualified charity
- Unreimbursed medical and dental expenses that exceed 7.5% of adjusted gross income

Individual itemized deductions may be limited. [Form 1040, Schedule A Instructions](#) can help determine what limitations may apply.

More information:

[Publication 501](#), Standard Deduction, and Filing Information

[How Much Is My Standard Deduction?](#)

[Topic No. 551 Standard Deduction](#)

IRS Tax Tips, Issue Number: Tax Tip 2020-17, February 11, 2020.

8. GLOBAL RETIREMENT ASSETS JUMP 15% TO \$46.73 TRILLION – THINKING AHEAD INSTITUTE”:

Global retirement plan assets across 22 countries jumped in 2019 thanks primarily to strong equity markets, up 15% for the year to \$46.73 trillion, said the Thinking Ahead Institute. The non-profit group, which is part of Willis Towers Watson's Thinking Ahead Group, said retirement assets now equal 68.8% of the gross domestic product of these 22

countries, up from 60.4% as of Dec. 31, 2018. According to the Global Pension Assets Study 2020, average growth per year in dollar terms was 15.2% across these countries. The three largest markets -- the U.S., U.K., and Japan, with a total of \$36.03 trillion in assets -- represented 77.1% of total assets. The U.S. remained the largest country by retirement assets at \$29.2 trillion, up 18.2% over the year and representing 62.5% of the total. Supplanting Japan, the U.K. was the second-largest retirement market at \$3.45 trillion, up 23.3% for the year and representing 7.4% of the total, while Japan ranked third at \$3.39 trillion, up 8.9% for the year and representing 7.2% of the total. The overall increase in assets among the 22 countries was largely attributable to an average return of 19.3% recorded for a 60% global equities/40% global bonds portfolio. Defined contribution plan assets for the seven largest retirement markets have grown an average 7.5% per year over the past 20 years, compared with 3.5% for defined benefit plan assets. Over the past decade, DB assets overall have grown at an average 4.8% per year, vs. 8.4% for DC assets. Year-over-year growth was not provided. Assets in DC plans now account for slightly more than 50% of total assets across the seven largest markets, equal to the year before, when DC plan assets exceeded DB plan assets for the first time. "The DC market has retained its newly found position as the larger of the two, as DB assets grow at a far slower pace. But the challenge of member engagement, critical for a stronger DC system, remains an unresolved issue for many schemes," said Marisa Hall, co-head of the Thinking Ahead Institute, in a news release. "As such, we expect this to be an area of particular focus for leading DC organizations as the next generation of plans takes shape. Advances in technology are opening up new possibilities for customization, changing the nature of member interactions and resetting member expectations. The future of DC is likely to be hyper-customized, with increased focus on individual participants, but many employers need to improve their governance to fully embrace this." The study report is available on the Thinking Ahead Institute's website. Rob Kozlowski, *Pensions & Investments*, February 10, 2020.

9. FROM TRADITIONAL TO TRANSITIONAL: HOW THE NATION'S RETIREMENT MODEL IS CHANGING:

Nearly six in 10 employers (57 percent) believe that within the next five years their workers will retire at older ages than today. On average, employers say their workers will retire at age 66, up from today's average of 64.5. As for those workers themselves, Forty-three percent say they expect to retire at age 65 or older and nearly 1 in 10 (9 percent) think they will never retire. For many, the very definition of retirement is changing, as bridge jobs, gig work and encore careers replace the traditional notion of a fixed end to one's working life. Today, 54 percent of employers, 43 percent of workers and 29 percent of retirees think the commonly used definition of retirement should be expanded, which could include changes in the work model for older workers. Those are just a few of the

findings from MetLife's new [Evolving Retirement Model Study](#), released today. The study was conducted by The Harris Poll on behalf of MetLife among 212 employers, 939 full-time employees, and 579 retirees. "The traditional model of retirement -- which assumed a fixed career end date and employer-paid benefits -- is being replaced by a more transitional model," says Graham Cox, executive vice president and head of Retirement & Income Solutions at MetLife. "Today, retirement has evolved to be more fluid with an ebb and flow between work and retirement." Among those workers who have delayed retirement or expect to, the most common reasons cited for the delay is that they want to continue to build their retirement savings or maximize their pension benefits (45 percent), and they can't afford to retire and need income for expenses and bills (35 percent).

A possible solution?

Saving is a critical first step in preparing for a comfortable retirement, but workers and retirees also need to understand how to successfully spend down those savings. Nearly all workers and retirees (95 percent) say it's important for retirees to have a source of guaranteed income they cannot outlive. Most employers (88 percent) agree on the need for retirees to have a source of guaranteed income that cannot be outlived. However, only 17 percent of employers who offer a defined contribution plan (e.g., 401(k) plan) say they currently have an option that enables plan participants to convert some or all of their savings into guaranteed income in retirement. "Compared to 10 years ago when employers were concerned with 'brain drain,' today's employers are increasingly worried about the impact of delayed retirement," said Roberta Rafaloff, vice president and head of Institutional Income Annuities at MetLife. "The passing of the SECURE Act may give more employers the confidence to offer guaranteed income options which, in turn, could help improve employee financial confidence and enable a smooth transition to retirement."

About the Study

The employer survey was conducted online by The Harris Poll, in partnership with ISS Media, now a unit of Institutional Shareholder Services, on behalf of MetLife between April 29, 2019, and May 21, 2019, among 212 U.S. adults ages 18+ who are employed full time, work for a company with 1,000 employees or more, have a job level of manager or above, have at least moderate influence in selection of benefits at their company, and whose company offers a defined contribution plan. Data were not weighted and are only representative of those who completed the survey. The employee and retiree survey was conducted online by The Harris Poll on behalf of MetLife between August 19, 2019, and September 6, 2019, among 1,518 U.S. adults ages 33-75 who are either employed full time (n=939) or retired (n=579), and have access to a defined benefit or defined contribution plan through their current employer or the employer from which they retired. Data were weighted, where necessary, to bring them in line with actual population

proportions. For full methodology, including weighting variables, please download the study at metlife.com/ERMStudy. Judi Mahaney, Yahoo! Finance, February 10, 2020.

10. MOST DB PLANS SAW LITTLE FUNDED IMPROVEMENT IN 2019:

Despite strong equity returns during 2019, most defined benefit (DB) plan sponsors likely saw only a small improvement to their plan's funded status over the year. The funded status of the nation's largest corporate pension plans edged up slightly in 2019 as historically low interest rate levels mostly offset the strongest investments gains witnessed by plan sponsors since 2003, according to an analysis by Willis Towers Watson.

In December

According to [River and Mercantile](#), discount rates ended December up slightly from November. Equity markets posted a solid month, and fixed income investments were generally flat or down for the month. Funded status improvements were likely small but would depend on equity allocations. During December, both model plans [October Three tracks](#) gained ground for the fourth consecutive month. Plan A improved 2% and finished 2019 even, while Plan B gained less than 1%, ending 2019 up less than 1%. Plan A is a traditional plan (duration 12 at 5.5%) with a 60/40 asset allocation, while Plan B is a largely retired plan (duration 9 at 5.5%) with a 20/80 allocation with a greater emphasis on corporate and long-duration bonds. Pension funding ratios increased throughout the month of December, driven primarily by global equity performance, according to Legal & General Investment Management America (LGIMA). It estimates that the average plan's funding ratio increased 2.1% to 83.2% through December. S&P 500 aggregate pension funded status increased in December from 85.8% to 86.6%, according to [Aon's Pension Risk Tracker](#). Pension asset returns were slow at the beginning of December before ending the month with a 1% return. The month-end 10-year Treasury rate increased by 14 bps relative to the November month-end rate and credit spreads narrowed by 11 bps. This combination resulted in an increase in the interest rates used to value pension liabilities from 2.83% to 2.86%. Northern Trust Asset Management (NTAM) says the average funded ratio of S&P 500 plans improved in December from 85.7% to 87.3%. But, Wilshire Associates estimates the aggregate funded ratio for S&P 500 plans increased by 1.6 percentage points in December to end the month at 88.2%.

During Q4 2019

The fourth quarter was also a good month for DB plan funded status. Barrow, Hanley, Mewhinney & Strauss, LLC estimated that the funded ratio for plans in the Russell 3000 rose to 88.7% as of December 31, 2019 from 85% as of September 30, 2019. LGIMA estimates the average funding ratio increased from 79.2% to 83.2% over the quarter based on market movements. According to Aon, pension liabilities decreased as interest

rates were up in Q4 2019. Ten-year Treasury rates increased by 24 bps and credit spreads narrowed by 21 bps, resulting in a 3 bps increase in the discount rate during the quarter for an average pension plan. Return-seeking assets rose during the fourth quarter, with the Russell 3000 Index returning 9.1%. Bond performance was weak, with the Barclay's Long Government /Credit Index decreasing -1.1%. Overall pension assets were up 3.4% in the quarter. However, 2019 overall was full of ups and downs for corporate DB plans. "While the financial headlines were all about the strong stock market in 2019, the decline in discount rates was just as significant," River and Mercantile says. Willis Towers Watson examined pension plan data for 376 Fortune 1000 companies that sponsor U.S. DB plans and have a December fiscal-year-end date and found the aggregate funded status is estimated to be 87% at the end of 2019, compared with 86% at the end of 2018. "Significant gains experienced in both the stock and bond markets should have bolstered the financial health of corporate pension plans in 2019," says Joseph Gamzon, senior director, Retirement, Willis Towers Watson. "However, interest rates were at historically low levels and experienced the largest one-year drop in two decades, resulting in a huge increase in plan obligations and little overall change in the plans' funded status." "The roller coaster ride continued during 2019 as we saw funded status drop as low as 81% but fortunately equities had a strong end to the year leading to an increase in funded status year over year," says Matt McDaniel, a partner in Mercer's wealth business. During 2019, the aggregate funded ratio for U.S. pension plans in the S&P 500 increased from 86% to 86.6%, according to the Aon Pension Risk Tracker. The funded status deficit increased by \$19 billion, which was driven by liability increases of \$230 billion and offset by asset increases of \$211 billion year-to-date. "Funded ratios increased in 2019 from 86.3% to 87.3%. This is a remarkable improvement considering that the discount rates dropped by more than 100 bps from 3.85% to 2.77% during the year. The exceptional performance from equity has more than made up for the headwinds from rising liabilities," says Jessica Hart, head of OCIO Retirement Practice at NTAM. While most estimates of funded status improvements in 2019 were small, some plans fared better than others. According to Barrow Hanley, which estimates funded status for the Russell 3000, "As of year-end, plans achieved a funded ratio greater than any other year-end level since 2007. Many plans likely achieved their highest funded ratio since adopting liability driven investing." The estimated aggregate funding level of pension plans sponsored by S&P 1500 companies increased to 88% as of December 31, 2019, from 85% as of December 31, 2018, according to Mercer.

Looking ahead

"Pension funding relief has reduced required plan funding since 2012, but under current law, this relief will gradually sunset. Given the current level of market interest rates, it is possible that relief reduces the funding burden through 2028, but the rates used to

measure liabilities will move significantly lower over the next few years, increasing funding requirements for pension sponsors that have only made required contributions,” says Brian Donohue, partner at October Three Consulting. “Discount rates edged up a bit last month. We expect most pension sponsors will use effective discount rates in the 3% to 3.4% range to measure pension liabilities right now, a full percent lower than rates at the end of 2018.” Willis Towers Watson’s analysis estimates Fortune 1000 companies contributed \$26.3 billion to their plans in 2019--roughly half of what they contributed in 2018, when many plan sponsors took advantage of the higher tax deductions for pension contributions that existed before the Tax Cuts and Jobs Act of 2017. The larger deduction is no longer available to plan sponsors. Michael Clark, managing director at River and Mercantile, says, “The big question going into 2020 for pension plan sponsors will be around how to manage funded status risk if rates don’t rise and equity markets experience a downturn.” And, McDaniel says, “As we start a new year, plan sponsors should review their pension risk management strategy to consider whether it is prudent to lock in gains as opportunities arise in this unpredictable market.” Speaking to DB plan sponsors that may be considering pension risk transfer action in 2020, River and Mercantile says, “Generally, we expect that plans with plan years starting on January 1 would have been better off doing a lump-sum cash out window in 2019 than in 2020. With the large drop in interest rates that occurred during 2019, there were significant opportunities for savings in 2019 that we do not expect to repeat in 2020. However, certain plans will still benefit from such a program. For example, plans with liability-hedging investments supporting their terminated vested liability could “lock in” their high asset values now by cashing out participants and liquidating this part of the portfolio to pay benefits.”
Rebecca Moore, Plansponsor, January 9, 2020.

11. DID YOU KNOW SACHEL PAIGE SAID THIS?:

How old would you be if you didn't know how old you are?

12. INSPIRATIONAL QUOTES:

“The Pessimist Sees Difficulty In Every Opportunity. The Optimist Sees Opportunity In Every Difficulty.” – Winston Churchill

13. TODAY IN HISTORY:

On this day in 2019, First gun control legislation for 25 years passed by US House of Representatives, with new federal background checks.

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