



CYPEN & CYPEN NEWSLETTER for July 9, 2020

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

1. CORPORATE PENSION FUNDING SEES MODEST MOVEMENT IN JUNE 2020:

Funding ratios for corporate pension plans saw modest movement in June 2020, according to reports from [Northern Trust Asset Management](#), Wilshire Consulting and [Mercer](#).

According to Northern Trust, the average funding ratio for S&P 500 companies with defined benefit plans inched up to 80% in June from 79.8% the month before. Global equity market returns were up roughly 3.2% during the month, while the discount rate decreased to 2.28% from 2.38% during the month, leading to higher liabilities.

"Further tightening of credit spreads led to higher liabilities in June," said Jessica K. Hart, senior vice president and head of the outsourced CIO retirement practice at Northern Trust

Asset Management, in a news release. "This liability increase was offset by favorable returns from long credit bonds and equities resulting in little funded ratio movement. Year-to-date, funded ratios are still down approximately 7%."

As measured by Wilshire, the aggregate funding ratio for U.S. corporate plans increased by 0.7 percentage points as of June 30 to 82.7% from May 31. The result resulted from a 1.8% increase in asset values partially offset by a 0.9% increase in liability values.

"June's increase in funded ratio was driven by a third consecutive monthly increase for most asset classes, especially U.S. equity," said Ned McGuire, managing director and a member of the investment management and research group of Wilshire Consulting, in a separate news release announcing the results. "The Wilshire 5000 Total Market index posted its best percentage quarterly gain of 21.94% since the first quarter of 1975."

Meanwhile, Mercer said the estimated aggregate funding level of pension plans sponsored by S&P 1500 companies decreased by 1 percentage point to 80% as of June 30 because of a decrease in discount rates to 2.57% from 2.69% partially offset by an increase in equity markets.

The estimated aggregate deficit of pension fund assets of S&P 1500 companies totaled \$493 billion as of June 30, up \$17 billion from the end of May.

"Funded status slightly decreased in June, but still remains well above its lows from March," said Matt McDaniel, a partner in Mercer's Wealth business, in a separate news release. "Equity markets continued their rally despite a dip at the end of the month. However, high quality corporate interest rates continued their downward slide to yet another all-time low, as credit spreads tightened during the month."

Mr. McDaniel added: "Despite the turmoil in the markets we still see opportunities for plan sponsors to transfer risk. We continue to see extremely attractive pricing for annuity buyouts, and with the decrease in interest rates since the beginning of the year, lump-sum windows may be attractive for many plans." James Comtois, *Pension & Investments*, www.pionline.com, July 2, 2020.

2. RECESSION ROCKS STATE AND LOCAL PENSIONS, 'FUNDING GAP' POSSIBLE:

The economic shutdown caused by the coronavirus will result in a steep drop in tax revenue for state and local governments, forcing them to make difficult decisions about how to fund the state pension systems their employees rely on for their retirement.

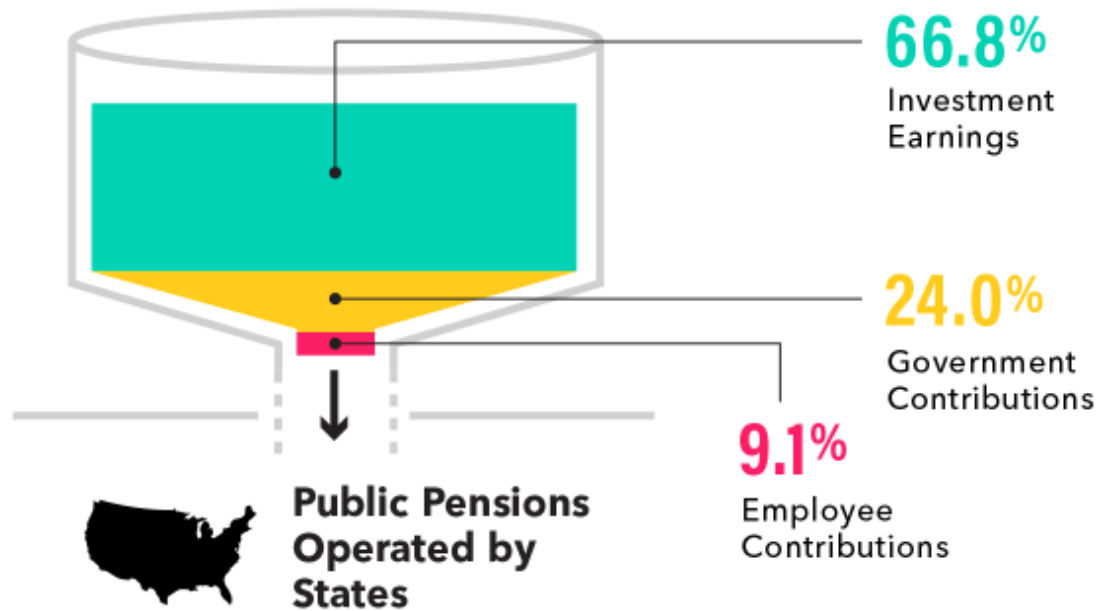
Pensions are largely funded from three sources: investment returns, employer mandated contributions on behalf of the workers, and employees who give a portion of their salaries. While funds have pared some losses on the investment front thanks to a bounce-back in the stock market, the ongoing recession will create problems for participating employers and the workers themselves.

The problem is so serious that states may suspend their contributions, “which would create a funding gap for state pension plans,” said Richard Johnson, a senior fellow and director of Program on Retirement Policy with the Urban Institute.

Should deficits continue, it would pressure public employers, such as state and local governments, as well as school districts, into more drastic measures for filling the gap in the future.

That could mean decreased funding for other priorities as they divert more of their incomes to pension plans as liabilities increase relative to assets. It could also portend future cuts in benefits to retirees or increases in contribution requirements for employers and workers.

The Three Sources of Public Pension Funding



Based on data from 2018
Source: U.S. Census

Bloomberg Lav

“The lack of revenues coming in from government means that all the cities in the state, everybody is really strapped for how they make their payments,” said James McNamee, president of the Illinois Public Pension Fund Association.

Making matters worse, governments find themselves losing revenue but also paying out more in unemployment benefits to help people who have lost their jobs. “Coronavirus has hammered the total economy, it is not just the pension system,” former New Jersey Gov. Christine Todd Whitman (R) said. “The (N.J.) governor has to be looking everywhere for money because you do have a constitutional requirement to balance the budget.”

Unhealthy Pensions

There are about 5,400 public pension funds in the country; 297 are administered by the states and the rest are managed at the local level, according to the 2018 Census [survey](#).

Among the least healthy pensions are Illinois, New Jersey, and Kentucky, whose plans are funded at 38%, 36%, and 34% respectively. The dire health status of these funds can be traced back to the governors who prioritized other needs such as health care and infrastructure instead of funding the pensions.

“The issue is lack of contributions by states, and in those states unfortunately the culture isn’t where the plan sponsors take their fiduciary responsibilities seriously,” said Hank Kim, executive director of the National Conference on Public Employee Retirement Systems.

In some cases, governors used the pension fund as a reserve account to address shortfalls in revenues. This was the case in New Jersey in the 1990s under Whitman, Kim said.

“Under the Whitman administration, the state decided to use the pension fund essentially as a piggy bank to fund tax cuts,” Kim said. “Subsequent to Whitman, both Republican and Democratic administrations and legislatures have decided to kick the can down the road, and not try to change the culture.”

Whitman said the tax cuts and pension system are separate issues. “What we did with the

pension system, we didn't need to balance the budget," she said. "We didn't need to pay for tax cuts that way." Whitman increased the state's long term debt by issuing \$2.8 billion worth of pension bonds to help fill the deficit. She also reduced the required contribution from participating employers for a few years.

Her actions surrounding the pension system were done "to help the municipalities, and I didn't see why taxpayers should have to continue paying into something for the future that was already well overfunded," she added.

Payroll Declining

Kentucky's problem was that the state overestimated returns from investments and the size of the payroll.

"The reverse was true, and that was that for years payroll was going down by about 2% per year," said David Eager, executive director of the Kentucky Retirement System. "The expectation that we were going to get more and more money from employers through the payroll was false. We were getting less and less."

The state reacted by lowering revenue expectations and passing legislation that required full payment by the legislature to the system.

The statute became necessary because prior legislatures gave about 40% instead of fully funding the pension fund in lieu of more immediate needs. In addition, a greater share of contributions from employees will be dedicated to pensions as opposed to other state priorities.

Despite these measures, Kentucky continues to wrestle with the fallout from coronavirus as legislators anticipate significant declines in tax revenue. This forced the state into an annual budget process instead of a biennial one.

City Budgets Stressed

The market declines that happened in first quarter of 2020 have all but guaranteed that, at the least, employer-mandated contributions will increase in the near future.

"It is clear that we will have a negative year," said Thomas DiNapoli, the New York State comptroller, who estimates the deficit will be no more than 5%. Regardless, market declines will mean "for the next go around of employer contributions, there is a pretty strong sense there will be an increase in the contribution rate," DiNapoli said. "Hopefully not too high."

That has the potential to wreak havoc on the budgets of municipalities such as Jamestown, a city with a population of 30,000 located just off the shores of Lake Chautauqua.

Jamestown paid about \$56,000 to the state's employees retirement system in 1999, and since then the recorded payments have whipsawed with spectacular increases sprinkled with modest percentage declines in some years.

Pension payments increased by almost 175% from 1999 to 2000 and again by 183% between 2002 and 2003. By 2005, Jamestown was contributing more than \$700,000. Payments peaked in 2013 when the city paid about \$1.2 million.

More recently, pension payments have stabilized through a combination of increased investment returns along with reduced benefits to new hires. However, the coronavirus will place additional pressure on the city to meet the mandatory contribution increases.

Lower Sales Tax Intake

Jamestown officials are projecting a decrease a reduction in sales taxes between 20% and 30% in 2020, resulting in a loss anywhere from \$1 million to \$1.5 million for the year, according to estimates obtained from the state and Chautauqua County.

That results in a budget deficit between \$2 million and \$4.7 million.

"The city has been at its constitutional tax limit for the last three years so we have not even been able to raise revenue, so when the pension asks more from us, we can't even raise the revenue to do that," Jamestown Mayor Edward Sundquist said.

That will force city officials into tough decisions about sacrifices they will make to meet their share of the pension contribution. Despite that, DiNapoli defends the mandated increases to employer contributions.

"Look at a state like Illinois, which is an easy one to point to, so much of their financial problems, their inability to borrow at certain times, is tied to the fact they have underfunded pensions," DiNapoli said. "New York's credit rating has gone up by the rating agencies in recent years because we have had a stronger economy, improved state budgets. The third part of that three-legged stool has been the fact that we have well-funded pensions in New York."

Revenue Drop

Illinois has a dramatically underfunded pension system. "Our revenues have dropped precipitously," state Sen. Heather Steans (D) said. "It is unclear at this point how the economy

is going to come about, what time frame and at what level. There is definitely a lot of unknowns out there.”

The state budget has allocated the full pension payment to the retirement fund, but without assistance from the federal government, the state will have to borrow money to meet its pension obligations as well as fund its other priorities.

Steans said the pension system is a high priority, but added it is too early to determine how the budget will be shaped because of other ballot measures meant to increase taxes to close the potential budget gap.

States and local governments are hoping to secure additional funding from [H.R. 6800](#), the stimulus bill passed by the U.S. House May 15, 2020. The legislation includes almost \$900 billion in federal funding for states and cities, along with a second round of stimulus checks and an extension for expanded unemployment insurance. It passed largely along party lines, and thus far the Republican-controlled Senate has balked at the proposal.

The potential funding gaps are not immediate, and pension fund managers and state and city comptrollers have said the required employer contributions are fixed for the current year.

However, problems will begin in the subsequent years when states and municipalities begin to receive their sales tax revenue allocations and realize it is much less than the past, according to state and local officials. At the same time, they may be asked to increase the amount they contribute to the pension system.

“What you are going to see is governors looking at everything,” Whitman said of state actions in response to coronavirus. “It will be a little bit of cutting, a little bit of tax increases, a little bit of downsizing. It is going to be a little bit of all of that because I don’t think there is going to be a pot of gold that anybody can go to.” Ralph

Chapoco, *Bloomberg*, www.news.bloombergtax.com, June 25, 2020.

3. PENSION CONTRIBUTION HIKES LOCKED IN:

Fla. Gov. Ron DeSantis signed the state budget, ensuring substantial pension contribution increases for state government agencies, universities and school districts.

The budget increases overall pension contributions by \$404.6 million in the 2020-21 fiscal year, an order of magnitude higher than the increase approved for the fiscal year ending June 30, 2020.

School districts account for the majority of the increase -- about \$233 million. Those increases are outlined in [HB 5007](#). The increased financial burden comes alongside [DeSantis' signature](#) on the teacher pay raise bill, which will funnel \$500 million in state money to local school districts, mostly to raise starting teacher pay, though \$100 million will be used to increase salaries for veteran teachers.

Additionally, the \$22.7 billion education budget lawmakers passed included a \$40 increase in the base student allocation. At the time, Senate Budget Chief Rob Bradley said the bump was [more than enough](#) to cover the increase lawmakers are requiring state employees to pitch into the state retirement system.

Despite the funding windfall superintendents urged DeSantis to veto the pension bill, citing the fiscal uncertainty wrought by the ongoing coronavirus pandemic.

The Governor, however, maintains the money is there for school districts to fulfill the pension and raise obligations. "I wouldn't have done it if we couldn't make the numbers work, but I think we made them work," he said.

DeSantis signed the pension bill on the same day he [signed the state budget](#) and issued the ["veto equivalent of the Red Wedding,"](#) slashing more than \$1 billion from the state budget.

That sum, [larger than anticipated](#), is the biggest budget veto made by a Governor in the state's history. As the economic realities of the pandemic began to set in over the final days of the 2020 Legislative Session, lawmakers reworked the budget to a [plan worth \\$93.2 billion](#). But with tourism disappearing and back-to-back monthly revenue reports showing massive shortfalls to the tune of [\\$1.66 billion](#), the apparent surplus vanished into a \$1.46 billion deficit.

"We always knew that we could see an economic downturn, but I don't think we necessarily forecast the economy simply stopping for a time," DeSantis told reporters. *FLAPOL*, www.floridapolitics.com, June 29, 2020.

4. PENSION BOARD OKS FIRMS TO SEEK CLAIM:

The Arkansas Teacher Retirement System's board of trustees has signed off on using two securities monitoring firms to pursue a claim against a global investment manager that managed three funds in which the system suffered an estimated \$700 million to \$800 million in trading losses.

During a recent meeting, the trustees approved the redemption of three funds managed by Allianz Global Investors. The system redeemed about \$550 million in May and experienced significant trading losses in these three funds, system Executive Director Clint Rhoden said.

The system staff has been working with counsel to determine whether additional action may be required, he said.

The retirement system was invested in these funds of Allianz Global Investors, Structured Alpha U.S. Equity 250, Structured Alpha Global Equity 350 and Structured Alpha Global Equity 500, he said. "We believe that there are actionable claims as a result of the significant losses that were experienced in those funds," system legal counsel Martha Miller told the trustees.

The Arkansas Teacher Retirement System has experienced some of the highest losses in those funds and "we are making a recommendation for the staff to pursue and the board approve litigation on an individual basis -- not a class-action basis -- against Allianz and any of their other related corporations, if we can be successful in piercing the corporate veil," Miller said.

"We would recommend that we do so as quickly as we can because, as one of the largest investors, we want to establish the protocol, or the footprint or the precedent ... in how these claims are prosecuted," she told the trustees.

Board Chairman Danny Knight of Sherwood said, "Basically, what you are telling us in an old country boy language, we need to get up to the trough pretty quick ... right?" Miller replied, "Yes." Trustee Andrea Lea, who is the state auditor, asked why Miller recommended hiring two securities monitoring firms.

"All of the firms that we got proposals from were compared in terms of their recommendations about venue and choice of law, and looking at the material that we had, and what the theory of recovery would be, and so forth and so on," Miller said. "But we believe that, given the size and the scope of our losses, we felt that the two firms would work well together. I know that they have worked together in the past and we believe that the approach of one would be complementary of the other. I have no doubt that it is not essential that we have both. It is just that we believe that the pair of them will be insurance at making sure that all the bases are covered and various points of view are considered."

John Wallace, a spokesman for Allianz Global Investors, said Wednesday, "While we would not comment on the internal deliberations of any pension trustees' board, it is a matter of record that our Structured Alpha funds suffered in the face of unprecedented market turmoil during March.

"Unfortunately, despite having come through previous market shocks in 2011, 2015 and 2018,

and having modeled more extreme scenarios, the speed, scale and volatility of the March market drawdown, together with the significant liquidity squeeze, went well beyond prior market dislocations and impeded the strategy's ability to prevent losses," Wallace said in a written statement.

Allianz officials have sought to explain these reasons for the drawdown to clients and their consultants and maintain open lines of communication, he said.

"The investment process and risk management function -- both of which operated as designed and [were] disclosed to investors throughout the downturn -- have been the subject of rigorous and regular due diligence efforts both prior to and during clients' respective investments in the funds," Wallace said. "AllianzGI has gladly participated in these efforts to ensure that investors' consultants could make fully-informed recommendations to their clients about the strategy and its risk and reward profile."

The Arkansas Teacher Retirement System's investments were valued at \$17.5 billion at the end of fiscal 2019 a year ago. Rhoden said Wednesday the current estimate is about \$16.5 billion. The system's final report on its investment performance for each fiscal year is usually not available until September or later. The system's target rate of investment return is 7.5% a year.

As of June 30, 2019, the system was 80% funded based on a \$17.4 billion actuarial value of assets and \$21.7 billion in liabilities with a projected payoff period of about 28 years, system actuary Gabriel, Roeder, Smith & Co. reported in December. The unfunded liabilities totaled \$4.29 billion as of June 30, 2019, Gabriel estimated. Michael R. Wickline, Northwest Arkansas Democrat Gazette, www.nwaonline.com, July 2, 2020.

5. CHICAGO'S PENSION DEBT SOARED \$1.7B IN 2019 - CITY ANALYSIS:

Chicago's pension debt soared by approximately \$1.7 billion in 2019, according to the city's audited annual financial report it released. In all, Chicago owes \$31.79 billion to its four employee pension funds representing police officers, firefighters, municipal employees and laborers, [according to the 2019 Certified Annual Financial Report](#). That is an increase of nearly 5.6% from 2018, according to the report.

Chief Financial Officer Jennie Huang Bennett said that growth was "not surprising" because the city was not required in 2019 -- the last full year of Mayor Rahm Emanuel's tenure -- to contribute to its pension funds based on actuarial estimates. That requirement, which took effect in 2020, has helped balloon the city's deficit.

That law is designed to force the city's pensions to be funded at a 90% level by 2045, to ensure that funds can pay benefits to employees as they retire. The city made no significant progress toward that goal in 2019, with the laborers' and firefighters' pension funds funding level rising slightly and the police officers' and municipal employees' funds funding level flat, as compared with 2018, according to the report.

The firefighters' fund has the lowest funded level of the four funds at 17%, according to the report. The laborer's fund has the highest funded level of the four funds at 43%, according to the report.

The city's 2020 budget called for the city to contribute \$1.68 billion to its four pension funds, city records show. The city ended the year with \$185 million in cash on hand, an increase of \$23 million from the end of the 2018 fiscal year, officials said. In addition, the city ended 2019 with a \$4 million surplus in its general fund, which it uses to pay for most city services, according to the report.

That allowed the city to add \$10 million to its long-term reserves, Huang Bennett said. The audit provides a snapshot of the city's finances before the coronavirus pandemic hit, causing a financial catastrophe and blowing a \$700 million hole in the city's 2020 budget.

Huang Bennett told reporters that the city's finance team had not seen anything to suggest that the shortfall has grown since [Mayor Lori Lightfoot detailed the gap](#) on June 9, 2020.

The city's 2020 budget forecast, released in August 2019, warned that the city's annual budget deficit could swell to \$1.6 billion in 2021 if the economy fell into a recession. Federal data shows a recession began in February, as the pandemic sickened tens of thousands of Americans. Heather Cherone, www.wttw.com, July 2, 2020.

6. MANDATORY POLICE RETIREMENT TO PAUSE UNDER NEW BENSON, DEANGELO LAW:

Governor Phil Murphy signed a new law sponsored by Mercer County lawmakers Dan Benson and Wayne DeAngelo (both D-Hamilton) to make sure veteran police officers can stay on the job and not be forced to retire during critical times such as the on-going coronavirus pandemic.

Under the new law, police officers who are members of the State Police Retirement System (SPRS) who reach the retirement age of 55 during a public emergency would have the option to delay their retirement for a short time. The law provides for an officer's retirement date to be extended if it falls during a public health emergency or state of emergency declared by the

Governor. The extension would last until the second month after the emergency ends.

"Having continuity during the pandemic between experienced officers and newer recruits is essential for maintaining the health and safety of our communities," said Benson. "By allowing officers to extend their retirement dates, we will ensure police forces maintain this continuity as New Jersey recovers from this public health emergency."

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7. WE NEED TO CUT POLICE PENSIONS AND BENEFITS - NOT OFFICERS:

New York City has approved a new, pandemic-squeezed budget that's making headlines because it includes a \$1 billion cut to the NYPD amid calls, in the wake of the George Floyd killing in Minneapolis, to defund police. The reality is less dramatic, with about half of that \$1 billion coming from shifting money and workers from the NYPD to other departments.

While the mayor pushes back against the "defund" bandwagon, his sleight of hand misses an opportunity in a time of crisis. The police budget has grown enormously because of lavish benefits that the city has awarded to NYPD employees and because New York state laws make it difficult to slow the increase in those costs once the perks have been awarded. The de Blasio administration is doing little to address those problems. Resisting calls to defund the department shouldn't mean carrying on with a cost structure growing increasingly unwieldy.

Police in New York have a hard job, but the extraordinary increase in the department's benefit costs makes the budget a target. In the past ten years, the police budget has increased by

\$2.8 billion -- to \$10.9 billion -- a compound growth rate of 3 percent annually. That's slower than the rate of increase of the city's overall budget, but more than half of the increase in the NYPD's total budget has been for pensions and fringe benefits, mostly health-care premiums for workers and retirees.

When you add in debt service, these costs alone now account for 49 percent of the department's budget. In other words, for every dollar the department spends on salaries, which constitute the main part of the rest of the NYPD budget, it's spending another dollar on benefits. This is wildly disproportionate.

The cost of fringe benefits has expanded by 56 percent in the last decade, to \$2.3 billion. The city provides nearly full medical coverage to employees and retirees, requiring only small contributions from some beneficiaries. Retirees under age 65 -- and almost all cops retire after 20 years on the job -- don't qualify for Medicare, a federal program, so the city pays the entire cost of their health benefits.

According to a recent study, retiree coverage costs \$17,000 annually for families and \$7,500 for individuals. The NYPD, with more retirees than current active members of the force, absorbs a big part of the cost. Some 60 percent of the department's spending on retiree health care is for those no longer working but who have not yet reached 65.

The rest of the money is spent paying smaller Medicare premiums for city retirees over 65. The city is carrying full health-care costs for two workforces -- the actual employees of the NYPD and its retirees.

While retiree benefits for cops are more expensive anyway, due to their younger age of retirement, New York's costs are huge even compared with those of other cities.

A 2013 study by the Citizens Budget Commission found that cost-sharing between retirees and the government was far more common elsewhere, where retirees typically pay about 25 percent of their health-care costs. In the private sector, such cost sharing is even greater -- if an employer offers any retiree health-care program.

The combined salary and benefits costs of the average patrolman now reaches about \$180,000 annually. It's much higher for officers. The other benefits monster is pensions. The annual cost to the department to fund retirements equals \$2.7 billion and essentially adds 50 cents to every dollar the department spends on salaries.

One of the biggest perks that uniformed personnel enjoy is the ability to count overtime pay

toward their pensions -- something rare in the private sector and at most government jobs in other jurisdictions.

One recent report estimated that this perk alone will add \$2.5 billion to the cost of pensions in the department over the next two decades. It's also a big reason why the average pension for a retired police officer is about \$75,000 a year.

In the past, even well-intentioned reformers have had trouble hacking away at these costs because of unusual state constraints. A state constitutional amendment, for instance, limits the ability of municipalities to reform or reduce pension costs once a worker joins the system, even for work that the employee has not yet performed.

This means that once a municipality hires a person, the rate at which the employee earns pension benefits cannot be reduced for the rest of his career. By contrast, pension laws in most other states let an employer change the rate of pension benefits for future work. In New York, the only recourse to savings is to change benefit rates for workers not yet hired, though it takes years for those savings to kick in.

Health benefits are not subject to constitutional restrictions and can be reduced. But changes must be bargained for, and the Taylor Law, which retains existing contract provisions in the event of a stalemate, makes that difficult. It provides a disincentive for unions to agree to concessions.

The law also gives public-safety unions the right to bring contract impasses to arbitration; over the years, arbitrators have often ruled favorably toward unions.

During his tenure, de Blasio has gained few concessions from unions. In the current circumstances, the only way to cut costs quickly is to reduce the workforce.

The new budget cuts some 1,100 workers from the NYPD and saves money through gimmicks like transferring entire functions -- such as school safety -- to other agencies, which must absorb the benefit costs.

But the city has left numerous options typically exercised by other governments off the table -- including larger contributions by retirees toward their insurance, especially those under 65, and reductions in coverage for entire families of retirees.

The pandemic is the kind of crisis that demands state reforms and better city contracts to save money, not reducing the number of police officers needed to maintain safe streets.

New York City's police have a hard job, and they do it well. But the combined salary and benefits costs of the average patrolman now reaches about \$180,000 annually. It's much higher for officers. Those costs have helped make the NYPD budget a focus of critics. The city may live to regret that. Steven Malanga, New York Post, www.nypost.com, July 4, 2020.

8. POLICE, TOWN HAVE A DEAL ON CONTRACT:

Town commissioners approved a new contract for police officers that increases pay an average of about 3.5% annually but doesn't move the local union members into the Florida Retirement System, a key sticking point in 2019 negotiations.

A majority of the department's 15 police officers and sergeants had already voted to approve the three-year deal that would take effect Oct. 1 2020, before commissioners took up the issue at their last meeting before their summer break. Commissioners unanimously ratified the deal.

Police Pay Grades

	<i>Officers</i>			<i>Sergeants</i>	
<i>Effective</i>	<i>2020</i>	<i>2021</i>	<i>Effective</i>	<i>2020</i>	<i>2021</i>
Step 1	\$47,633	\$49,299	Step 1	\$68,250	\$70,639
Step 2	\$49,533	\$51,267	Step 2	\$70,630	\$73,102
Step 3	\$51,520	\$53,324	Step 3	\$73,098	\$75,655
Step 4	\$53,573	\$55,549	Step 4	\$75,653	\$78,300
Step 5	\$55,713	\$57,664	Step 5	\$78,296	\$81,037
Step 6	\$57,941	\$59,970	Step 6	\$81,026	\$83,863
Step 7	\$60,256	\$62,366	Step 7	\$83,865	\$86,800
Step 8	\$62,658	\$64,851	Step 8	\$86,792	\$89,830
Step 9	\$65,170	\$67,450	Step 9	\$89,827	\$92,972
Step 10	\$67,769	\$70,141			
Step 11	\$70,477	\$72,943			
Step 12	\$73,295	\$75,861			

Talks between the town and the Southwest Florida Police Benevolent Association resumed June 12 following an impasse in 2019 which largely focused on retirement plans. Union members sought to join a defined-benefit plan backed by the Florida Retirement System, similar to a traditional pension. The town offered to up its contributions to a defined-contribution 401(a) plan, the public-sector version of a private-sector 401(k) plan.

In November, the Town Commission convened an [impasse-settlement hearing](#) in which both the union and the town presented contract proposals. Commissioners sided with town management in a 7-0 vote.

Following members' 8-6 rejection of the town's contract offer, the town imposed a one-year contract on the union with a new salary step plan, a salary increase and an increase to the town's mandatory contribution to the 401(a) to 11% retroactive to Oct. 1, 2019. Pay increases under the imposed contract were made retroactive to Sept. 30, 2019.

The two sides also agreed to resume negotiations with the goal of a three-year contract to take effect in the next fiscal year.

On June 12, the town presented union negotiators with the same contract proposal offered in 2019. After initial discussions, two points were added to the proposal: a provision allowing for the vesting of employees' town contributions to their 401(a) to the benefit of their beneficiary if they were killed in the line of duty and increasing pay for extra duty details to \$50 an hour.

The annual wage increases average 3.5% over the three-year period for a total increase of 10.5%, or \$96,100 over the life of the contract. According to the town, the extra costs of the proposed contract are factored into the proposed budget for the next fiscal year.

Actual wages paid to officers and sergeants in 2021 would range from \$51,520 to \$75,653, depending on length of service.

An officer at the first level of experience would make \$47,633 in the first year of the contract. An officer with the same experience hired in the second or third years would make \$49,299. An experienced officer's salary at the 12th step reaches a maximum of \$75,861 by the end of the contract with similar gains in the other experience-based salary steps.

A sergeant at the first step of experience would make \$68,250 in the first year of the deal and \$70,639 in the final year. An experienced sergeant at the top of the pay range would make \$92,972 by the end of the contract.

Among the contract's key points:

- Retirement - The town adds a percentage point to contributions to the 401(A) defined contribution plan (12% in Year 1, 13% in Year 2) and continue to match employee's voluntary contribution up to 3%. There will be no change in Year 3;
- Specialty pay for boat captain and detective \$65 biweekly, four field training officers \$50;
- Lump sum payout from holiday pay bank Oct. 1 of each year.
- Comp time substitution for overtime by agreement with the Police Chief.
- Medical Leave Payout - 50% paid on retirement or death. Maximum use of medical leave for personal leave for 12-hour employees from 24 to 36 hours.
- Town's contribution to the Defined Contribution Plan shall be paid to the employees designated beneficiaries in the event of death while on duty in the line of duty regardless years of service with the town.
- Service pistol at separation after 10 years available for \$200. After 15 years, it's free.
- Emergency leave up to 36 hours.
- Vacation - extra shift after 10 years of service

Police Chief Pete Cumming earlier this year announced his plan to retire on Sept. 30. No plan to replace him has been announced. Eric Garwood, Your Observer, www.yourobserver.com, July 1, 2020.

9. PUBLIC RETIREES LIKELY TO LOSE ABILITY TO SERVE IN LEGISLATURE WITHOUT LOSING RETIREMENT BENEFITS:

The board that governs Mississippi's public employees retirement system could revisit and reverse its ruling that retired educators and state and local government retirees can serve in the Legislature while continuing to draw their pensions.

The Public Employees Retirement System Board had requested an IRS ruling on whether its decision could negatively impact the federal tax exempt status of the system, which could be detrimental for the system and its members.

The board had voted in 2019 to change its regulation to allow the public retirees to serve in the Legislature and draw their pension as they do in other states, such as Florida. But in making the change, board members said they needed approval of the IRS.

In a letter sent to the PERS Board in early May, officials at the IRS said: "In this particular instance we have determined that we cannot issue a ruling based on the factual nature of the matter involved."

When contacted, the IRS refused to provide any additional details. And PERS officials only referenced the letter and indicated the issue would be discussed by its governing board as early as its next regular meeting.

Members of the House leadership believe the IRS ruling – or lack of ruling – means that the PERS Board will have to reverse its ruling allowing public retirees to serve in the Legislature and draw their pension or risk losing the tax exempt status.

“My understanding of the issue is the absence of the IRS endorsement changes everything,” said House Speaker Philip Gunn, R-Clinton. “It puts the tax exempt status of the plan in jeopardy.”

House Pro Tem Jason White, R-West agreed. He said if a request is made and the request is not granted: “Isn’t it the same as saying you can’t do that?”

The House leadership has opposed the change in regulation to allow public retirees to serve and draw their pension from the very beginning. Gunn argued the PERS change conflicted with existing state law.

For years, PERS’ regulations prevented public employees from serving in the Legislature and drawing their pension. But in late 2018, former Attorney General Jim Hood issued an opinion - [based on a question from an elective official](#) - saying that public employees could serve in the Legislature and draw their pension as long as they received only a portion of their legislative pay. Public employee retirees already can work part time for other governmental agencies. Hood ruled that they also should be allowed to serve in the Legislature.

In the 2019 election, four public retirees - all Republicans - were elected to the House with the expectation that they could draw their pension while receiving partial legislative pay. But the House leadership - despite the PERS change in regulation – refused to reduce the pay of the four members, meaning they were ineligible to receive retirement pay.

Two of the four members - Ramona Blackledge, former Jones County tax assessor/collector, and Billy Andrews, former Lamar County judge - already have stepped down from the legislative seats. The other two, Jerry Darnell of DeSoto County and Dale Goodin of Richton, both retired educators, are still serving and forgoing their monthly retirement benefits.

“It will eventually be resolved,” Goodin said. “You can’t continue to take people’s rights away.” Goodin and others have argued not allowing retired public employees to serve and draw their

pension takes away a right from them that others, such as retirees from the private sector, have.

When PERS board members changed the regulation, they did so with the understanding that they might have to rescind the change if not approved by the IRS.

Retired public employees in other states are allowed to serve in their legislatures without their system being penalized by the IRS. The four elected officials told Mississippi Today this year that they do not understand why Mississippi is different.

For instance, Florida law says specifically “any retired state employee who is presently drawing retirement benefits under any state retirement system may, as any other citizen, serve in the Legislature without affecting in any way his or her retirement status or the receipt of retirement funds while a member of the Legislature.”

PERS Executive Director Ray Higgins said earlier the IRS might allow public employee retirees to serve in the legislature in other states without losing their pension and not allow it in Mississippi because “each state has different laws, regulations, and retirement plan designs.”

Most employees of state and local governments, public schools K-12 and university employees, participate in Mississippi’s retirement system, contributing 9 percent of their salary for retirement benefits.

According to PERS data, the average benefit is more than \$23,100 annually for the more than 100,000 people drawing benefits. In total, more than 300,000 are in the public employees retirement system either drawing benefits, having paid into the system or currently paying into the system. Bobby Harrison, Mississippi *Today*, www.mississippitoday.org, July 4, 2020.

10. 'PANIC, VIOLENCE AND BLOODSHED' - PITTSBURGH HIT WITH CLASS ACTION OVER POLICE RESPONSE TO PROTESTS:

The lawsuit is likely the first case to be filed in Pennsylvania over the widespread protests, which often led to high-profile police crackdowns, including in Philadelphia where the mayor and police commissioner recently apologized for using tear gas to disburse protesters who were marching on a highway.

Several participants in anti-racism [protests](#) earlier this month have sued Pittsburgh and numerous city officials over [excessive police](#) tactics, including the use of tear gas and rubber bullets, to break up the otherwise peaceful demonstrations.

The lawsuit is likely the first case to be filed in Pennsylvania over the widespread protests,

which often led to high-profile police crackdowns, including in Philadelphia where the mayor and police commissioner recently apologized for using tear gas [on protesters](#) who were marching on a restricted-access highway.

The proposed class action, captioned *Rulli v. City of Pittsburgh*, was filed Monday in the U.S. District Court for the Western District of Pennsylvania. The complaint focuses on protests that occurred earlier this month, and broadly alleges that police's excess tactics violated their rights and led to significant injuries.

"On June 1, 2020, people from Pittsburgh and surrounding communities assembled in the East Liberty neighborhood of the city of Pittsburgh to add their voices to these nationwide protests and seek change locally," the 42-page complaint said. "The Pittsburgh Bureau of Police responded by escalating a peaceful protest into a scene of pandemonium, panic, violence and bloodshed."

The eight plaintiffs in *Rulli* include a 13-year-old who was injured by the gas and temporarily separated from his parents, a trained international human rights observer who was detained overnight, and a man who had to have numerous stitches to his wrist after being dragged while handcuffed in zip ties.

The suit alleges the city officials, including Mayor Bill Peduto, violated the First and 14th amendments, as well as the Fourth Amendment's protections against excessive force and unlawful arrest. Peduto's press office did not immediately return a call seeking comment.

Attorney Quinn Cozzens of the Abolitionist Law Center, who, along with Margaret Coleman of The Law Offices of Timothy P. O'Brien, is lead plaintiffs counsel, said it made sense to file the lawsuit as a collective action, given the number of people who may have been injured at the June 1 protest. (According to the complaint, there should be at least 100 eligible class members.)

"Because of the sheer number of people who were there and the similarity in what their experiences were . . . we felt that the class action was the most appropriate because of the scope of the violence and brutality the police unleashed here," Cozzens said.

The lawsuit focuses on events that occurred at about 6:30 p.m. near the intersections of Centre and Negley avenues. According to the complaint, protesters were marching peacefully, about two hours before a citywide curfew was set to take effect.

The complaint, which included links to numerous videos and photographs of the police

clashes alluded to, said police formed a line and began telling protesters to disburse. Although protesters did not disburse, they did not do anything to provoke the police either, the complaint said. However, police allegedly began shooting tear gas, rubber bullets and smoke bombs at the protesters, allegedly injuring many.

The complaint said many protesters became trapped between approaching police lines and thick clouds of tear gas. Officers also began firing indiscriminately into the clouds of tear gas and smoke, the complaint said. According to the complaint, the decision to use tear gas and to detain the protesters increased their chances of contracting COVID-19.

Although 22 people were eventually arrested and brought to the Allegheny County jail, all of the charges against protesters that day were dropped.

The complaint also said police used disparate force on the protesters when compared to another protest that happened downtown in spring where numerous people came to voice frustrations over Gov. Tom Wolf's decision to order a statewide shutdown in an effort to stem the spread of COVID-19. The complaint mentioned that many of those protesters openly carried guns, but they were not met with police violence.

"The unarmed and peaceful June 1, 2020, protesters posed less of a threat of 'substantial harm or serious inconvenience, annoyance or alarm' to the residents of the city of Pittsburgh than the heavily armed April 20 protesters," the complaint said. Defense counsel has not yet entered an appearance in the case. Max Mitchell, The Legal Intelligencer, www.law.com, June 29, 2020.

11. SEVEN WARNING SIGNS TO WATCH OUT FOR WHEN CHOOSING A FINANCIAL PLANNER:

Heed these warning signs while looking for, or even after, you have hired a planner.

Has no qualification or a chequered past

While a certification may be no guarantee that a planner will manage your finances well, by and large, it is an indicator of his ability to do so. So check his credentials and ask for the clients he has serviced in the past to ensure you are not dealing with a charlatan or a rookie. He should have the Certified Financial Planner (CFP) certification, which is awarded by the Financial Planning Standards Board (FPSB) of India, the principal licensing body in the country. If he dilly-dallies or hedges, do not hire him.

Promises big returns to beat the market

This should definitely ring the alarm bells because it is virtually impossible to do either. It is in

the nature of markets to go through cycles and returns are bound to vary over time. Bear markets or a recessionary period do not yield high returns and beating the market is a rare feat. If he had the ability to do so, the planner would have made a huge amount of wealth for himself instead of peddling lies to his clients.

Does not hold periodic review meetings

If you have already hired a planner, but realize he does not conduct quarterly or half-yearly meetings to take you through your portfolio and assess your needs in terms of taxation, insurance requirement, rebalancing or apprising you of financial developments and steps to be taken, feel free to let go of him.

Doesn't consult you before taking action

If the planner does not bother to consult or inform you about the steps he is taking during any transaction, be it buying, selling, rebalancing or conducting any other financial updation, dump him immediately. Even if you have given him the right to act because you don't have the expertise to conduct certain tasks, he is duty-bound to inform you or take your permission before making any changes to your finances.

Agrees to everything you say

If he is only doing your bidding and executing your decisions, you need a secretary, not an adviser. It is the planner's job to stop you from taking wrong decisions, prodding you to take action when required, and ensuring you meet your goals and keep your finances safe. If you take a wrong decision and he endorses it, you need to dispense with him before he inflicts too much damage.

Doesn't mind taking shortcuts

If the planner has no qualms about cutting corners or bending the rules, if he doesn't mind providing wrong data, fudging figures or lying while buying insurance, filing your tax returns, reporting your income or profits, you most definitely don't need him. You will not only end up on the wrong side of law and face penalty for his lack of ethics and integrity, but also lose money and peace of mind.

You are not comfortable with him

Trust your instincts and if the planner rubs you the wrong way, do not pick him even if he comes with the right credentials. Since you are going to be dealing with him for a long time and he is handling your money, it will not bode well for you or your finances if you always end up arguing with him or feel reluctant to interact with him. Riju Mehta, The Economic Times, www.economictimes.indiatimes.com, July 6, 2020.

12. THREE REASONS YOU CAN'T COUNT ON SOCIAL SECURITY ALONE FOR RETIREMENT:

[Social Security](#) is an important income source for the millions of seniors who collect benefits during retirement, and while there's nothing wrong with factoring those benefits into your long-term financial plans, you shouldn't make the mistake of thinking those benefits alone will be enough to get you through your golden years. Here's why.

- The average monthly benefit is probably lower than you think.

Minimum wage in the U.S. is \$7.25 an hour, which means that if you work 40 hours a week, 52 weeks a year, you're taking home \$15,080 in annual income -- not a whole lot. Well, it may shock you to learn that the average Social Security benefit isn't much higher. The typical senior today receives \$1,503 a month in benefits. On an annual basis, that's \$18,036. Granted, that still counts as being above the poverty line -- but it doesn't negate the fact that it's not a lot of money to live on, especially if you're used to earning a lot more than minimum wage.

- Benefits may be cut in the future.

Social Security is facing a major financial crisis in the not-so-distant future. In the coming years, the program will owe more money in benefits than it expects to collect in payroll tax revenue as baby boomers exit the workforce in short order and not enough younger workers come in to take their place. In that scenario, Social Security can tap its [trust funds](#) to make up for a revenue shortfall, but only as long as those funds actually have money in them.

According to the Social Security Trustees' [most recent projections](#), the program's trust funds are set to run dry in 2035, and unfortunately, high levels of unemployment during the COVID-19 pandemic that have robbed Social Security of precious payroll tax revenue could make that unwanted milestone arrive even sooner. Once that happens, benefits could be slashed by more than 20%.

- You may be forced to retire before you're eligible to claim benefits.

An estimated [48% of workers](#) are forced to end their careers early, according to the Employee Benefit Research Institute. And that alone is a good reason not to bank solely on Social Security. Though you're only entitled to your full monthly benefit based on your earnings history once you reach [full retirement age](#) (which is either 66, 67, or somewhere in between, depending on the year you were born), you're allowed to start collecting Social Security beginning at age 62, albeit at a reduced rate. But what happens if you're forced into retirement at age 60, or even earlier? Without an additional income source, what will you do then?

All of the above points boil down to one important message: It's crucial that you save for

retirement independently rather than assume that Social Security will provide all of the income you need for your senior years. If you're 40 years old, and you sock away \$300 a month in a [401\(k\) or IRA](#) between now and age 67, you'll wind up with \$268,000 for retirement, assuming your investments in that account deliver an average annual 7% return (which is a reasonable assumption for a retirement plan that's invested heavily in stocks). Make it \$400 a month, and you'll be sitting on \$357,000. While Social Security is, thankfully, not in danger of going bankrupt and disappearing, if you depend too heavily on those benefits, you're likely to wind disappointed and cash-strapped. And don't you deserve better? Maurie Backman, www.mooretribune.com, July 5, 2020.

13. ASK LARRY - WHEN WILL I SEE MY SOCIAL SECURITY RETIREMENT BENEFIT INCREASE AFTER WAITING TO FILE?:

Today's column addresses questions about how and when delayed retirement credits (DRCs) are applied, how divorced spousal benefits are calculated, how survivor benefits are calculated, filing online and whether a deceased person's application can be withdrawn. Larry Kotlikoff is a Professor of Economics at Boston University and the founder and president of Economic Security Planning, Inc, which markets [Maximize My Social Security](#) and MaxiFi Planner.

When Will I See My Social Security Retirement Benefit Increase After Waiting To File?

Hi Larry, If I don't begin receiving my Social Security retirement benefit at 66 when I reach my full retirement age, how much will it increase by? I might wait another year or longer. Will I still get increases if I wait between one and two years or do I have to wait another full year after the first year to get more? Thanks, Josh

Hi Josh, Delayed retirement credits (DRC) add 2/3rds of 1% to a person's benefit rate for each month that they delay collecting Social Security retirement benefits after full retirement age (FRA) up to 70. That amounts to an increase of 8% for each year they delay starting benefits.

However, if you apply for benefits between full retirement age (FRA) and 70 in any month other than January, you would initially only receive credit for any delayed retirement credits (DRC) you earned through December of the previous year. Any remaining DRCs earned in the year that you claimed benefits are credited in your benefit payment for the following January.

For example, if a person reaches their FRA of 66 in 7/2020 but delays starting their Social Security retirement benefits until 7/2021, their initial benefit rate would only include credit for six DRCs (i.e. July through December 2020). In other words, their initial benefit rate would only be 4% higher than their FRA rate, not 8%. The additional 4% increase for the months

January through June 2021 would not be credited until the person's benefit payment for the month of 1/2022. Furthermore, my understanding is that the automated process used to credit additional DRCs is only run every other year, so it could be awhile before such a person would actually see the additional 4% increase. Social Security would pay any back pay due once they process the recomputation, however.

You may want to use my company's software to explore each of your potential filing options and settle on the best possible strategy for claiming your benefits. Social Security calculators provided by other companies or non-profits may provide proper suggestions if they were built with extreme care. Best, Larry

Am I Missing Something?

Hi Larry, In my divorce settlement, it was calculated by the judge that I will receive \$2,000 from Social Security per month at age 62. I am forced to take it at 62 as required by the decree. My former husband has paid the maximum over the last 10+ years. I will be 62 in 2028. And I am assured that this Social Security at 62 for \$2,000 combined with another \$1,000 by my ex, that I will receive, at minimum, \$3,000 per month. Since this is all that I can expect to live on, this is quite important to me. I was completely dependent on him as I stayed home to raise our kids. It seems that this simply doesn't sound right, that I am going to receive \$2,000 a year at 62. Am I missing something? Thanks, Deanna.

Hi Deanna, All I can tell you is that the judge handling your divorce case cannot set the amount that you'll be eligible for from Social Security. Social Security is a federal program, and the benefit rates payable are determined by the earnings history of the worker on whose record the benefits are paid.

The most that a divorced spouse can be paid from the record of a living ex-spouse is 50% of the ex's primary insurance amount (PIA), which is equal to their full retirement age (FRA) retirement benefit amount. And they'd only get the full 50% if they wait until full retirement age (FRA) to start drawing. If they instead start drawing at 62, their divorced spousal amount would be reduced by up to 35%.

The current maximum PIA for people reaching FRA in 2020 is \$3,011. Therefore, the current maximum possible divorced spousal rate at FRA would be \$1,505, which would be reduced to \$978 for a divorced spouse whose FRA is 67 and who files at 62.

Furthermore, you can't be paid both your own Social Security retirement benefits and a full divorced spousal benefit. If you qualify for both benefits you could only be paid essentially the higher of the two benefit rates, and your rate would be reduced if you file prior to FRA. Best,

Larry.

If My Wife Applies For Survivor Benefits Before Reaching FRA Will The Benefit Be Reduced For Age?

Hi Larry, I am 71 and my wife is 58. I delayed drawing my Social Security retirement benefit until 70 to increase my benefit to the maximum. Should I die before my wife reaches FRA, and she applies for survivor benefit, will the benefit be reduced depending on her age?

Alternatively, should I survive until my wife reaches 62, files and receives a reduced benefit, does that also lock her in to a reduced survivor benefit when I die? Thanks, Hector.

Hi Hector, If you die before your wife reaches full retirement age (FRA) and she files for widow's benefits before FRA, then yes her widow's rate would be reduced for age. If she started drawing widow's benefits at 60, she'd receive 71.5% of your full rate, but if she's at least FRA when she starts drawing widow's benefits she'd get your full rate. If she starts drawing widow's benefits between 60 and FRA, the closer she is to FRA when she starts drawing, the closer to 100% of your rate she'd receive.

Filing for either her own benefits at 62 or spousal benefits would not lock your wife into receiving a reduced survivor rate. She could still get 100% of your benefit rate if she's at least FRA when she claims widow's benefits. However, if your wife is drawing reduced spousal benefits and is not eligible for benefits on her own record, and if you die before she reaches FRA, her spousal benefits would automatically convert to survivor benefits and her rate would be reduced based on her age at the time of your death. Best, Larry.

Can My Wife And I File Online?

Hi Larry, I am currently receiving spousal benefits from my wife, who filed when she was 66. She is now 67. I turn 70 in the beginning of August and want to claim my retirement benefits. We would also want her to receive spousal benefits based on my record. What do we need to do? Can we do all this online? Thanks, Jack.

Hi Jack, You may be able to file for your benefits online, but your wife would have to file for spousal benefits by calling Social Security. They can take applications by phone even if their offices remain closed to the public due to the coronavirus.

Social Security's website claims that they constantly expanding their online services, but one of the current limitations for filing online is if a person is currently receiving benefits on their own Social Security record. Therefore, your wife won't be able to file for spousal benefits online unless and until Social Security further expands their online capability. Best, Larry.

Can A Wife Return Her Deceased Husband's Benefits And Take An Increased Benefit At Age 70?

Hi Larry, If a husband claims benefits at FRA of 66 while the wife is collecting her own retirement benefit and he passes away six months later, can the wife choose to return his payments, with the intent of taking the husband's increased benefit when she turns 70?
Thanks, Mary.

Hi Mary, You can't withdraw a deceased person's claim after their benefits have started, so the wife in your question could not undo her husband's application even if she returned the benefits he was paid. In any case, though, delayed retirement credits (DRCs) can't accrue after a person's death, so there'd be no advantage to withdrawing the husband's claim in a case like this. Nor could the wife get a higher widow's rate by waiting until 70 to apply.

Since her husband filed at full retirement age (FRA), this wife's unreduced widow's rate would be based on 100% of the deceased husband's full retirement age rate, or primary insurance amount (PIA). She'd get that rate if she files for her widow's benefits at her full retirement age (FRA) or any time after that. She wouldn't get that full rate plus her own benefits, though, just the higher of the two benefit amounts. Best, Larry.

Laurence Kotlikoff, Forbes, www.forbes.com, July 5, 2020.

14. 'HOW WIDESPREAD UNEMPLOYMENT MIGHT AFFECT RETIREMENT SECURITY'?:

The *brief's* key findings are:

- Before the virus, half of households were at risk of falling short in retirement.
- The virus-related surge in unemployment has likely increased the share of households at risk from 50 percent to 55 percent.
- And this increase does not capture the impact of lower asset prices and interest rates.
- In addition, even the unemployed who were already at risk *before* the pandemic are in worse shape now as they face a larger savings gap.
- The results stress one more reason to get people back to work quickly: the shorter the unemployment spell, the less harm to retirement prospects.

This *brief* is [available here](#). Alicia H. Munnell, Anqi Chen, and Wenliang Hou, Center for Retirement Research at Boston College, <https://crr.bc.edu/>, July 2020.

15. TREASURY DEPARTMENT AND IRS ISSUE GUIDANCE FOR CONSOLIDATED GROUPS REGARDING NET OPERATING LOSSES:

The Department of the Treasury and the Internal Revenue Service today issued proposed

regulations and temporary regulations that provide guidance for consolidated groups regarding net operating losses (NOLs).

The Tax Cuts and Jobs Act (TCJA) and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) amended the rules for NOLs. After amendment, the NOL deduction is the sum of:

- The total of the NOLs arising before January 1, 2018 (pre-2018 NOLs) that are carried to that year; plus
- The lesser of:
 - The total of the NOLs arising after December 31, 2017; or
 - 80% of taxable income less pre-2018 NOLs (the 80% limitation).

The TCJA generally eliminated NOL carrybacks and permitted NOLs to be carried forward indefinitely. The TCJA also provides special rules for nonlife insurance companies and farming losses. Nonlife insurance companies are permitted to carry back NOLs two years and forward 20 years, and the 80% limitation does not apply. Farming losses are permitted to be carried back two years and carried forward indefinitely, subject to the 80% limitation.

The CARES Act effectively delays the application of the TCJA amendments until January 1, 2021. Additionally, the CARES Act permits a five-year carryback for NOLs, including farming losses and NOLs of nonlife insurance companies, for taxable years beginning after December 31, 2017 and before January 1, 2021.

The proposed regulations provide guidance to consolidated groups on the application of the 80% limitation. Additionally, the proposed regulations would remove obsolete provisions from the rules for consolidated groups that contain both life insurance companies and nonlife insurance companies.

Because the CARES Act allows certain NOLs to be carried back five years, the temporary regulations allow certain acquiring consolidated groups to make an election to waive all or a portion of the pre-acquisition portion of the extended carryback period for certain losses attributable to certain acquired members.

For more information about this and other TCJA provisions, visit [IRS.gov/taxreform](https://www.irs.gov/taxreform). Additional information about tax relief for businesses affected by the COVID-19 pandemic can be found on [IRS.gov](https://www.irs.gov). IRS Newswire, Issue Number 2020-138, www.irs.gov, July 6, 2020.

16. FIND A QUALIFIED TAX PROFESSIONAL USING IRS WEBSITE RESOURCES:

With the federal income tax deadline just around the corner, the Internal Revenue Service wants to remind taxpayers that IRS.gov offers tips on finding a qualified tax professional.

Over 84 million tax returns were prepared by a paid return preparer last year. Though most tax professionals provide honest, high-quality service, taxpayers should keep in mind these basic tips when [selecting a tax professional](#):

- Choose a trusted preparer. Taxpayers entrust vital personal data with the person preparing their tax return, including Social Security numbers and information on income and investments.
- Review the tax return carefully before signing. Taxpayers are legally responsible for what's on their tax return, regardless of whether someone else prepared it. If something does not look right, don't hesitate to ask questions.
- Make sure the preparer signs the return and includes their [Preparer Tax Identification Number \(PTIN\)](#).
- Never sign a blank tax return. Consider it a red flag when a taxpayer is asked to sign a blank tax return.
- Ask about service fees. Avoid preparers who base fees on a percentage of their client's refund or boast bigger refunds than their competition.

The [Directory of Federal Tax Return Preparers with Credentials and Select Qualifications](#) is a free searchable and sortable database. It includes the name, city, state and zip code of credentialed return preparers who are CPAs, enrolled agents or attorneys, as well as those who have completed the requirements for the IRS [Annual Filing Season Program](#). A search of the database can help taxpayers verify credentials and qualifications of tax professionals or locate a tax professional in their geographic area. There is also a page with [IRS Tax Pro Association Partners](#) that includes links to national nonprofit tax professional groups that can help taxpayers seek [the right type of qualified help](#) from a tax preparer.

More resources:

- The IRS requires anyone who prepares any federal tax return for compensation to have a PTIN. For 2020, the IRS has issued more than 773,000 PTINs.
- Taxpayers can use several options to help find a tax preparer. One resource is [Choosing a Tax Professional](#), which includes a wealth of consumer guidance for selecting a tax professional. There are various types of tax return preparers, including enrolled agents, certified public accountants, attorneys and some who don't have a professional credential.
- [Things to remember when choosing a tax preparer](#)

- [How to Choose a Tax Return Preparer](#)
- [When, and how, do I file a complaint about a tax preparer?](#)
- [Most taxpayers eligible for free federal and free state tax return preparation](#)

IRS Newswire, Issue Number 2020-139, www.irs.gov, July 6, 2020.

17. FOR THOSE WHO LOVE WORDS (LOGOPHILES): The meaning of opaque is unclear.

18. INSPIRATIONAL QUOTE: "Nothing is really work unless you would rather be doing something else." -*J.M. Barrie*

19. TODAY IN HISTORY: On this day in 1868, Louisiana and South Carolina are the last states to ratify the 14th Amendment to the United States Constitution, guaranteeing civil rights; and the *first* African American to hold a statewide office in the United States, Francis L. Cardozo, is sworn in as Secretary of State in South Carolina.

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