

CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM

BOARD AGENDA

Retirement Board Regular Meeting - Thursday, September 17, 2020 - 2:00 p.m.

City Hall - Commission Chambers, 100 North U.S. #1, Fort Pierce, Florida

1. **CALL TO ORDER**
2. **ROLL CALL**
3. **COMMENTS FROM THE PUBLIC** (limited to 4 minute duration)
4. **CONSIDERATION OF MINUTES**
5. **REPORT FROM BOARD ATTORNEY**
6. **PUBLIC HEARINGS ON BENEFIT APPLICATIONS**
 - a. Request for Retirement from Jo-Ann Bilyk with 9 years and 4 months of service with the Fort Pierce Utilities Authority
 - b. Request for Retirement from Charles D. Connell with 10 years of service with the Fort Pierce Utilities Authority
7. **OLD BUSINESS**
 - a. Consideration of Board Policy Regarding Unauthorized Recipients of Benefit Payments and Recovery of Such Payments
8. **NEW BUSINESS**
 - a. Report from Heitman
9. **CONSENT AGENDA**
10. **CONSIDERATION OF ABSENCES**

11. BOARD MEMBERS COMMENTS
12. **Next meeting is October 15, 2020 at 2:00 p.m. and will be held in the Commission Chambers, City Hall.**
13. MISCELLANEOUS
14. **ADJOURNMENT**

In accordance with the Americans With Disabilities Act of 1990, persons needing a special accommodation to participate in this proceeding should contact the Recording Secretary of the Retirement and Benefit System at the Finance Department of the City of Fort Pierce no later than three business days prior to the proceeding. Telephone (772) 467-3000 for assistance.

Any person seeking to appeal any decision by the Retirement Board with respect to any matter considered at this meeting is advised that a record of proceedings is required in any such appeal and that such person may need to insure that a verbatim record of the proceedings is made including the testimony and evidence upon which the appeal is to be based.

Retirement Board

Meeting Date: 09/17/2020

Re: Minutes of the August 20, 2020 Retirement Board Meeting

Submitted For: Johnna Morris, Finance Director, Finance Department

Information

SUBJECT:

CONSIDERATION OF MINUTES

Attachments

8-20-2020 minutes

Form Review

Form Started By: Queen Thompkins

Started On: 09/11/2020 08:28 AM

Final Approval Date: 09/11/2020

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Summarized Minutes of the regular meeting of the City of Fort Pierce Retirement and Benefit System August 20, 2020 2:00 p.m., in the Commission Chambers at City Hall.

Present:

Keith Stephens, Chairperson
Caleta Scott, Vice-Chairperson
Johnna Morris
Comm. Tom Perona
Mayor Linda Hudson
Javier Cisneros
Brian Avilla

U.A. General Member
General Member
Director of Finance
City Commission Member
City Commission Member
U.A. Board Appointee
Police Officer Member

Attorney Jim Walker
Christina Paz

Attorney for the Retirement Board, Advisory
Retirement Clerk

Guest by Conference Call:
Weston Lewis and Cody Chapman

Callan Associates

Recording:
Queen Thompkins

Executive Assistant to the Director of Finance

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

ITEM NO. 1 & 2 ~ ROLL CALL

Mr. Keith Stephens called the meeting to order at 2:00 p.m., the first item on the agenda being the “*Roll Call*”.

ITEM NO. 3 ~ COMMENTS FROM THE PUBLIC

Mr. Stephens, the next item on the agenda was comments from the public. There were no comments from the public.

ITEM NO. 4 ~ APPROVAL OF SUMMARIZED MINUTES OF JULY 16, 2020

Mr. Stephens said the next item was the approval of the summarized minutes of July 16, 2020, and the Board asked if there was a motion to approve the minutes. **A motion was made by Mr. Javier Cisneros and seconded by Mayor Linda Hudson to approve the summarized minutes of July 16, 2020. All those in favor of the motion signified by saying aye. A poll was done of each Board member. There was no opposition and the motion carried unanimously.**

ITEM NO. 5 ~ ATTORNEY’S REPORT

Mr. Walker said I’m happy to report that there have been no further legal developments affecting the Retirement System that are known to me within the last month except that most everybody here is no doubt aware that the City Code of Ordinances is being recodified and renumbered, and that I think will be seen as occasion to prepare and we are in the process of doing an updated manual for everybody so that it remains current and that will include the updated rules with particular emphasis on from whatever amendment might resolve from today’s deliberations. Otherwise Mr. Chairman, I’m happy to entertain any questions, comments, or concerns.

ITEM NO. 6 ~ PUBLIC HEARINGS ON BENEFIT APPLICATIONS

None

ITEM NO. 7 ~ OLD BUSINESS

None.

ITEM NO. 8 ~ NEW BUSINESS

a. QUARTERLY REVIEW OF PERFORMANCE EVALUATION FROM CALLAN ASSOCIATES

Mr. Cody Chapman thanked Mr. Stephens and said Mr. Weston Lewis is here also. I hope you all are doing well and are managing through the new normal we find ourselves in. Weston and I look forward to the day when we can come back and visit your sunny city. We are still working from home here in Atlanta.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

That will likely be the case for the rest of the year. We appreciate your flexibility to allow us to participate remotely. I want to give a quick update on performance. I'm going to start on page 15; I'm happy to report broadly that the markets were up very strongly in the second quarter. That include through July and the early part of August. The S&P 500 is actually up about 5.6% year to date; very encouraging results there. Nasdaq is up more than 28% year to date. The Nasdaq is more technology driven that's been by far the best performing sector of the market. As you are likely aware, a handful of stocks had dramatic recoveries and very good years in terms of performance. That was the case coming into the year and just as the pandemic has played out, a lot of these technology companies have benefited from some of the shifts the pandemic has caused in terms of workwise, during things remotely via the internet and all the different changes have benefited those technology companies. I think more broadly the stock market has been encouraged by the response from Congress in terms of Stimulus for individuals and businesses, as well as a number of programs that have been put into place by the Federal Reserve to stabilize markets. The Feds continue to keep rates exceptionally low. It's our expectation that's likely to continue for several years to come. If you look at the broader economy is certainly still struggling quite a bit. GDP is estimated to have been down more than 30% in the second quarter, early estimates for the third quarter showing about a 20% rebound. We certainly are starting to see jobs come back as more businesses open and people trying to get back to normal as best as they can. Many are still out of work or under employed. I think Congress still needs to be more intent of Stimulus. It seems there is some agreement that more needs to be done but it has become a political football. No deal as of yet but certainly looks like something that needs to be done at some point this year. The reality is there's still a health crisis. Monetary and physical responses can help bridge the gap while people quarantine, work from home; all those things to help this from becoming a financial crisis but ultimately the way to get on the other side of this is containment in terms of testing, tracing contacts, and then hopefully creating a vaccine at some point. We'll stop there and see if there are any questions about the market before, we talk about your portfolio. Moving to page 17, where your portfolio stood as of June 30th strong rebound in the second quarter as we talked about. Your total fund went from \$187.7 million March 31st to \$212 million as of June 30th. That was an increase of about \$24.5 million just within the second quarter. Just out of curiosity I went back to look at where you all finished out 2019, as of 12/31/2019, you all were at \$215 million, so you just about made all of that lost in the first quarter back. As of June 30, if you fast forwarded with the good results of July and August so are, you are likely ahead of that 215 mark year to date. Moving to page 18, the total fund was up better than 13% in the quarter. That place you all in the 23rd percentile for the quarter which is just slightly ahead of the target. Looking out longer term, you all continue to do quite well. Over the last year, about 1.4% out of your total fund benchmark which puts you in the 15th percentile, and if you look out longer term 5 and 7 year results, well ahead of your benchmark and in the top quartile of peers. You all continue to do a great job managing the portfolio. On page 20, we'll move to the results of a few managers. Emerald on page 20 is your Small Cap Growth manager. They're about 2% ahead of the benchmark for the quarter. They had a reasonable first quarter and bounced back pretty strongly in the second quarter; long term returns relative to the benchmark are very good and continue to rank in mind with peers. Page 21, Ceredex underperformed during the second quarter; about 1.6% relative to the Russell 2000 Value. Ceredex performed very well in the first quarter. They protected nicely on the downside for you all. It's not too surprising that they gave back a little bit as the market bounced back so strongly. When I look at longer term results for Ceredex, they did good relative to the benchmark and relative to peers for just about all the period you see there. They've been working

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

with you all for more than 20 years and have a very good track record of results during that period. The next two pages, 22 and 23 is your index fund so I'll just skip over those. Those continue to do exactly what we would expect. Page 25 is Morgan Stanley. They are your developed markets manager; a very good quarter for them; more than 3.6% ahead of the benchmark which put them in the top quartile of peers. They were ahead in the first quarter as well, so they protected very well on the downside for you all. It's nice to see them keep up in a very strong market, for international market as well. Another manager that has done very well relative to their benchmark and peers of the long run; you can see most of those periods well ahead of the benchmark and above median or even top quartile relative to peers; better than 28 years this strategy has been in place. Causeway, on page 26, your emerging markets manager; they are a relative newcomer to the portfolio, modestly behind in the second quarter; about 1.75%. The last three quarters since you all hired them, slightly behind in the emerging market benchmark and right in line with peers. Some of their stock selections have been a little bit challenged in Asia, China, and in South Korea. A little bit of a slow start for them but overall, no concerns so far. China is about 40% of the emerging market index now. A lot of managers are hesitant to put that much of their portfolio in a single country. A lot of the emerging markets managers had large allocations to China but likely not as large as the benchmark so that has been a bit of a headwind for a lot of managers including Causeway.

Mr. Stephens asked is this where we start putting more of our allocation in the emerging market, isn't this what we talked about? I know we had concerns about China but do you think because of the virus, do you think there's going to be some serious trepidation in people going back to China. How do you feel about it because of the virus?

Mr. Chapman said one of the interesting things about the virus it made its way around the world kind of on a staggered basis. China really started to deal with this December, January timeframe, started dealing with this a good bit earlier than the rest of the world, so the Chinese markets soared off much earlier than the rest of the world and actually bounced back pretty strongly. Any volatility from China, you've kind of written that out already. I think we all have heard stories about questioning data coming out of China and data you should always question. I think more broadly it seems like they've largely gotten the virus under control. I don't necessarily have any concerns about investments in China at the moment. More broadly within your international equity portfolio, you're at about \$50.5 million with the international portfolio and the emerging market piece is only about 4.8% of that, so less than 10%.

Mr. Stephens said he didn't ask the question right. I didn't mean more about the virus, but the perception and the realization that everybody has always known, there's a lot of eggs in that basket than China with manufacturing and things like that, what their economy is built on; the exports coming out of there; people coming back home. Europe is talking about that, so that's why I'm just wondering. Right now, you don't see that big change happening; if it does, it will be slow over years, correct?

Mr. Chapman said I think their economy is evolving, to your point. Manufacturing has started to become diversification there to your point. Companies are saying do we need some diversification here geographically. One of the biggest parts of the Chinese market is the tech box. If you look at the Index, quite a bit of the Chinese exposure is a lot of these tech names. That's become a big piece of it. There's

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

some effort there to diversify some manufacturing. To your point, I would say that's likely to be a process that occurs every several years. To your point, I think it would be a gradual process.

Mr. Stephens said thank you very much. I appreciate it.

Mr. Chapman said very quickly on page 27 William Blair had a really strong quarter; did want to highlight that. They're your international growth manager, pairing with Morgan Stanley; good quarter for William Blair. Over the last year, they are about 15% ahead of that ACWI ex US benchmark; really been doing a great job for you all relative to that benchmark as well as peers. They really benefited from a good bit of technology exposure, strong stock selection, and growth being in favor in international markets relative to value has also helped. Moving to fixed income on page 29, Richmond Capital is your sole manger here. You can see they had a very good quarter; 4.5% versus the benchmark at 2.9%. Richmond had a little bit of a challenge in the first quarter as did many fixed income managers, but they bounced back very strongly in the second quarter. Richmond historically has bought a lot of corporate bonds, generally relatively high quality; in the second quarter corporate bonds did get beat up quite a bit, particularly in March. Good to see those bounced back in the second quarter as market participant decided to take on more risk, corporate bonds were very much back in favor during the second quarter. Richmond continues to post good results over the long term relative to the benchmark as well as to peers. Finally, on page 31 we have Heitman. You can see that Heitman had a bit of a challenging quarter in line with the benchmark; down about 1.5% for the quarter. That put them in the 68th percentile of the peer group. You see over the last year they are down about 3.41% net of all fees while the benchmark is up about 1.7%. That puts them near the bottom of their peer group. This fund has really been challenged by their retail portfolio and some of their office holdings. We've been keeping an eye on Heitman for several quarters now. The COVID epidemic has been a challenging environment for just about all real estate managers. Certainly, office occupancy is dramatically lower than it was the start of the year. Many retails have been closed quite a bit of the year. Those trends have put pressure on rental income and that has been a bit of a headwind for Heitman. They've also written down their retail properties pretty significantly over the past couple of quarters. You all know this was the theme in later 2019 as well; adjusting some of those evaluations to reflect market conditions and certainly the first half of 2020 has really only exasperated those trends.

Ms. Thompkins asked Mr. Chapman to repeat a few things he just said.

Mr. Stephens asked Mr. Chapman to start at Heitman; **(we just had a small power outage).**

Mr. Chapman said I won't repeat all of it; maybe I'll just hit the high points that are likely to be much relevant for the meeting. Heitman had performance that was in line with the benchmark for the quarter. They did trail peers somewhat, making the 68th percentile of the peer group. Longer term, their performance has been relatively challenged against the benchmark and peers. For the last year, down about 4% net of all fees versus the benchmark being up about 1.7%. If you look at longer term results, they have trailed the benchmark as well as their peers. The primary driver for that has been a challenging performance from their retail and office portfolios. As you all are aware, they have been looking and valuations and adjusting those downward, many of their retail properties back in 2019. The challenges of COVID have only

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

exasperated some of those challenges in retail and offices have also been challenged as a result from the work from home environment that most of the country is facing. As a result, this challenge performance and potentially this more of a shift away from real estate for some investors, Heitman has a redemption que that's about \$1 billion. So that means they've had investors request that Heitman send them funds back as you all know. A real estate portfolio is not particularly liquid, so in challenging transaction markets like what we've seen over the last couple of quarters, you can have what is called a redemption que brought up, which is essentially investors waiting for Heitman to send them their capital back. They are working through those redemption request as quickly as they can, but the reality is that COVID-19 limits on travel and just a lot more uncertainty around cash flow for properties and that's valuations. There's just not a lot of transactions going on right now. Heitman is estimating that it will likely take until the end of 2021 for them to work through the current redemptions. The challenge for you all as long term investors is, how do you manage the need to take action with the manager or also wanting to be patient with them longer term when you know that it may take some time for you all to get your money out of the fund if you wanted to do so down the line. The question for you all is if you go ahead and request a redemption request now, knowing it may take several quarters so that down the line if Heitman performance doesn't improve, you all will already have a redemption request in place and are starting to get some of the funds back that can be reallocated, or you can continue to be patient and wait to see how this plays out.

Mr. Chapman said let me stop there to see if you have any questions.

Comm. Perona said I appreciate that. A little chill went down my spine. Normally you ask us to be patient and these are normal environments that we are in, but I didn't get that on this manager. When you're talking about \$1 billion of redemption over the next year and a half, I keep thinking a real estate manager has a portfolio and in trying to make these redemptions, one would think they would go after the low hanging fruit, the easier, marketable assets. I'm thinking if we hang in there the long term, are we going to be affected by a portfolio that is skewed. I'm just thinking of all the things that can't sell is going to be stuck in this portfolio. Maybe I'm over-simplifying it but it does give me some concern.

Mr. Chapman said that's a very good question. They do have a diversified portfolio. I'm working in the background to pull the number of properties from one of the documents they sent. I think they have enough diversification that they can work through your redemption request and you can use it as an opportunity to also to reposition the portfolio in other areas. You do bring up a good point which is that other investors are going to be looking and saying Heitman is the seller here; will they accept a lower bid knowing that Heitman needs liquidity; to your point did it sell the most liquid assets. I think they can still manage it. The question for us is trying to manage risk here for like of a better term. When we see that a manager has been underperforming the last several years and then there's also que building up, the prudent thing to us would be to look at trying to reduce some of your exposure here. You certainly hope that performance bounces back and, in that case, you can resend a redemption request. Knowing that the que may take until 2021 to clear, it seems prudent to think about submitting a redemption request in this scenario where performance doesn't improve, and you all want to move away from Heitman as a manager.

Comm. Perona said following up, is there a loss in our investment by doing so usually?

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mr. Chapman said you all share transaction cost with all the investors in the fund. There's not really any cost to you all. As I've mentioned, you can submit a partial redemption request. You can submit a forward redemption request or something in between. Heitman is willing to let you all resend the request. If you redeem \$10 million of your \$20 million investment and Heitman sent you \$5 million at the end of the year, and then early next year performance has turned around, you all could resend your redemption request for that remaining amount and Heitman would accept that.

Comm. Perona asked in all that, is there somewhat of a recommendation from you, from Callan?

Mr. Chapman said we like real estate as a diversifier for you all. Many of you were around when we were initially thinking about this allocation and it was very thoughtful put in place with a lot of discussion from some Board members at the time. We still think real estate has a role in your portfolio. The question is how do we get it back? One option would be to look at potentially conducting a search for a second manager so we could bring a search book to you all at the November meeting and give you some candidates. The goal would be there's potential in Heitman. They continue to be on the portfolio but, they may not if performance does not turn around. I think we would want to identify a manager that could potentially work in hand with Heitman but also could potentially be a good stand-alone manager. That way if you had a second manager, you could redeem some capital from Heitman at a minimum; reduce some of the exposure there and use that to fund a second real estate manager allocation. That would give you some diversification from Heitman, and if you did need to terminate Heitman down the line, you would have a quick and ready place to move those funds.

Comm. Perona said thank you.

Mr. Stephens said like you said, they're diversified. We're not just talking office buildings, we're not just talking malls, we're talking commercial properties out there; everything, because with this virus, I think there's going to be a percentage that don't ever return back to buildings. I think some companies are going to say it's cheaper for them to work from home and give them a stipend of whatever it is. It's cheaper than maintaining a building for our company if the infrastructure for the internet is out there for them so they can work from home. We done it to a certain degree. That's going to limit that side of it. We already know what's happening to malls. That leaves us with some commercial properties. I realize we have rentals and that's based off the housing market. I don't know; that's why I'm asking you.

Mr. Weston Lewis said if he could add a couple of comments on Heitman as well and their portfolio going forward. I would say that they are pretty underweight to office. Where they do have office, they have a pretty large overweight to medical office, which is very different from office exposure, like New York City for example. We would agree with you that, that's actually been a trend going on for years prior to COVID. It's more and more telecommuting, more and more working from home being the norm. This is certainly accelerated that trend and they recognize that and have been underweight to that type of office for some time. I would put that in the advantage category for Heitman going forward. I just want to make sure that everyone understands this. We're not entirely giving up on Heitman. This is a risk control; managing risk recommendation and to the extent that something does continue to escalate and not in your favor, we want

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

to be on the record, we did something to manage that potential risk. Right now, we would probably argue that it's low. Heitman still has a yield advantage relative to their peers and relative to the Index to where they are collecting more in terms of cash coming back. They have a younger or newer kind of portfolio than do their peers. It's not all bad at Heitman but certainly the sins of the past have been that retail exposure which they are actively pairing down. We are still urging patience here. This is not a recommendation to fully terminate Heitman assisted to manage that risk to them right now.

Comm Perona asked when do we expect Heitman to come back and talk to us. Were they here in the Spring?

Ms. Morris said we did have them in May, but they can come back if the Board wishes in November

Comm. Perona said this is large and they are one of our newest strategy managers. I would really like to hear from them and see what their outlook is. Is that reasonable to ask them to participate in a future meeting where they can tell us how they are responding to these issues. We're the sloths of the retirement industry and it has paid for us to do it that way. Knee jerk reactions, things like that, that happens a lot of times in government has cost a lot of the retirement plans a lot of money. We have confidence in Callan. We have confidence in our managers and when we lose confidence over a long period of time, we make a change. I just got a feeling that it's harder to make these decisions, even if it's just a strategy for us to limit our risk. I like taking a look at it, getting a feel. I'd like for the companies themselves to be able to tell us what they are doing to offset these issues and sell me on the idea that some day the sky is going to open up and things are going to be great and they're going to be at the top of the game. That's important to me before I make any major decision like this and if we can schedule that sooner than later, I'd appreciate that.

Mr. Stephens asked if there was a time limit. You said there's \$1 billion. If we don't do that, what is the possibility of us asking for some of our money back. Does that mean three months from now there may not be \$1 billion; it may already be allocated to other people that have asked for their money back?

Mr. Chapman said Heitman handles their que pro rata. What that means is they look at the funds they are able to disperse, they look at what's been requested, and then they show that evenly across. So, it's done pro rata. If you all submitted a redemption request, keep in mind for Heitman, you have to give them 90 days' notice and they pay liquidity quarterly to receive a redemption as of 12/31 you all would have to submit a redemption request by September 30. Otherwise, after that date, it will not be process until March 31. The challenge I think that Weston hit on is you're still comfortable with Heitman right now but given the lag in redemptions and then also with the que knowing that if you all submitted a full redemption request, you would only get that back over the next several quarters. We think it's prudent to be thinking about how we want to manage this into 2021 and knowing action may be needed sooner rather than later to be able to take action down the line. To Comm. Perona's point, we can certainly have them come in for a meeting. We can have them at the November meeting. If you would like them, and us as well, to show up at the September, we're certainly happy to do that.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mr. Lewis said as Cody mentioned, it's 90 days so it doesn't matter if you don't make the decision today or if you wanted to hear them at the September meeting, you can make the decision then and it's equally the same in terms of how soon you can get in that que.

Mr. Stephens said remember we are not going to be able to look at them. We're going to be hearing the over the phone.

Comm. Perona said this isn't going to be their first rodeo when they talk to us. They've got this thing down pat and they're going to give us deliverables that they expect and we can sit there and gage those deliverables over the next few months, so that if we do have a conversation with them in March or February, or whatever, we can use that to promote them or start talking about getting some of our money back and possibly looking at another manager. I would like to hear from them in September if we could.

Mayor Hudson said in addition to how it affects our portfolio, I think it would be educational for them to know to be able to us across the industry what the industry is predicting beyond our portfolio. It would be good for us to know.

Mr. Stephens said that's a good idea. You guys understand what our expectations are?

Mr. Chapman said yes. Back in July they put together a data that's more than 70 pages that walks through most of the questions you all asked. I think that all the questions you asked are very relevant and they are mind as well. I'm very confident they have the materials you all are looking for based on what we've seen from them very recently. We're happy to facilitate that. We'll work with Johnna and Queen to get them on the agenda for September.

Comm. Perona said that was just my wish. We need to have a consensus. If you could identify the consensus.

Mayor Hudson said September is fine.

Mr. Stephens said that's fine and the other Board members agree.

Mr. Chapman said he will coordinate that with Johnna and Queen. We appreciate your time and patience. That concludes our comments from us.

Mr. Stephens said thank you for taking the time.

b. CONSIDERATION OF BOARD POLICY REGARDING UNAUTHORIZED RECIPIENTS OF BENEFIT

Mr. Walker said it will be recalled from last month's meeting that during a review of currently outstanding collections accounts. There was an expression of interest in perhaps putting a systematic policy in place

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

that might structure and guide future collection concerns. At subpoints overarching concerns. There was some questioning about interest that might be imposed on those from whom collection was sought. There were also questions about at what point might the Board that anything less than a certain amount might not be worth following. With those three concerns in mind, I sent correspondence date August 5. Everybody should have that in front of them and what that did was attached several things. There was an exchange of emails between myself and Brad Armstrong on interest and I will return to that soon enough. There was also a suggested policy that the Board might want to look at as an amendment to our rule on the benefited administration which I thought I might offer to the Board as being responsive and what that does; the amendment and if I can start off with overall procedure that's suggested here that would embody a policy to be followed going forward is that, in the event the secretary identifies a problem, someone who is believed to have been collecting benefits without authorization as benefits that were reportedly paid to a retiree, now deceased. The secretary would then report that to the Board if it were over a certain amount and I've left that certain amount entirely blank here, understanding it will be for discussion for sure under this agenda heading. Once she presents that report to the Board, then the Board would determine, #1 whether or not a criminal referral was in order; #2 in any case it would order commencement of civil collection. There would be a motion. I move that we order civil collection against John Smith, Mary Doe, and as part of that motion, it is visualize that the Board would impose an expectation for the lengths of payments in the event a lump sum payment was not forthcoming as well as a proposed interest rate. Brad Armstrong was asked to give what sort of rate that he might have in mind. He didn't give us really a black letter response but he did identify as a threshold matter a consideration of whether an instance of presumed innocence if the circumstances brought forward by the secretary just that the money had been collected mistakenly and that could be taken into account. But if that was manifestly not the case, he suggested that perhaps we go to 6%. Between 0 and 6%, I think would be an expected range, if I'm reading Mr. Armstrong comments correctly. The motion that would be made by the Board upon receipt of the secretary would be, "I move that the individual collection efforts be commenced at 3% over a period in the event that the lump sum of repayment is not voluntarily forthcoming over 24 months." Again, I'm just using arbitrary figures. At that point with authorization, staff, counsel would approach the individual in question and invite lump sum repayment. If that was not forthcoming, then they would be given the option of executing a promissory note in the suggested form, for such note is additionally included here, and that note would incorporate the interest rate and the length of time for repayment that had been ordered by the Board in it's motion. In the event the individual refuses to either make repayment or subsequently defaults on the note, then the amendment now before you would provide that we immediately and automatically proceed towards reducing the amount to judgment. That is the suggested procedure that is sat out in the amendment before you.

Mayor Hudson asked in the event that we would recommend prosecution, do we still go forward and execute the paperwork?

Mr. Walker said I'm presuming we would.

Mayor Hudson said that would almost be an encouragement to settle quickly I would think. Would the court look favorably on that?

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mr. Walker said that would certainly be taken into account by the prosecutor if there is an immediate contrition on the part of the individual and repayment so as to minimize the damage incurred by the offense and that's taken into account and certainly the original complainant, the Retirement System might express interest in a lack of further prosecution and that would not be binding on the prosecutor but certainly is something that's given great weight.

Mr. Stephens said somebody and doesn't know that done it and that maybe last a couple of months, three months and you get a hold of them, I don't see charging these people interest. The way I look at it, once we notify someone, if it's an honest mistake, they haven't spent that money most likely. That money could come pretty quick. Do we give them three months, and I don't know what that number is; this is for discussion, or do we say we start charging interest once we notify you. If you can't pay after three months, then we start charging it. The reason I like it written down is it's not a judgement call and it can't be construed that we're showing this or that. It's cut and dry. We'll give you three months, no interest. After that we start charging interest, and then we proceed in accordance, depending on the amount. I think whatever de minimis number we come up with, I'm assuming, when you go to court to file something, that's extra money that we pay the lawyer to do that. So that de minimis number is based on how much we are paying him. Is it worth us chasing if we're paying him?

Comm. Perona said I don't care what we pay him. I agree with you that 90 days is good because if it was a mistake, 90 days can cure all. One part that I like is the consistency of this. I don't like us to be able to weigh in on each and every one. Even if it's \$100 or under, I'm okay with it. It's not a big deal to me. I don't care what it cost. I want people out there that are part of the System to say, you don't want to mess with that Retirement Board because they are going to come after you no matter what. It may cost you in that one instance, but it will save you in everyone after that. We're the bully in the playground. What it also says is that we all take the fiduciary responsibility at top order. We don't make exceptions. I wouldn't in my life. If you owed me \$200 and you said you didn't have it, alright, you owe me \$200. In this particular case, we represent all of the retirees, we represent the citizens that pay into this. It is really important that we set this standard that high.

Mr. Stephens said he agrees. In the discussion when we talked about it, I was thinking \$25, \$50.

Comm. Perona said \$1,500, and I know we'll probably burn that just going through it. I don't care, I want to get that on the record. I want to get the judgement, want to move that forward because, somebody comes up and says why aren't you giving us a call, why aren't you doing all of this stuff. We're doing everything we can to make sure that every dime that we get in this is going for our commitment to all the retirees, past and present.

Mr. Stephens said he agrees.

Mr. Walker said I'm construing your thought about three months interest free and then interest as part of a motion.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mr. Stephens said its part of a discussion right now. We're not going to make a motion right now.

Mr. Walker said I mean as part of a motion to put it through collection. When someone says, "I move that Mary Smith be put in the collection, and as part of that motion for the first three months, if she executes agreement to pay, then for the first three months would be no interest. After that three months, the total amount of time she has to pay here is 24 months.

Mr. Stephens said I rather it be written down that way and say according to our rules, which is, and we could mention that, but I would rather refer back to rules written down. Is everybody on the same page? Someone could make a different motion someday.

Ms. Morris said a question as to clarity, now are we saying that we want to implement that once we are aware. The normal process is, once we are aware, we start the necessary process of sending letters to make sure that we say, this has come to our attention you owe this amount of money back. We send the letter or try to reach them by phone, but we still send them correspondence to them to let them know that they owe the System. Usually, it's about 30 days to make sure that they send the money back or reach out to us. Are we now saying that once we are aware before we start any recoup process, you want me to bring it to the Board? Some people it's just a month thing; it was a month roll. Anybody that had to bury a love one, those are just some things you don't get right off. We give them enough time to send it back. We try to exhaust the recoup process, then bring it to the Board.

Mr. Stephens said the way I look at it is, once you've contact them and they know, what's the longest it's ever taken you to get ahold of some one?

Ms. Morris said some we're still trying.

Comm. Perona said the way I envision it is that staff will do whatever they have to do to go through the process. You send out whatever letter you want, you try to get the money back within 30 days. From the time that you wrote that letter, 90 days is when I think it starts triggering interest, no matter what. I'd like to see it in front of us; not that we're going to change anything, so we all understand what we have as far as outstanding in the issues that we have because we need to be aware of that. You can put it on a consent agenda; you can do whatever you want with it. We could go ahead as a Board ordain that as an issue that we have to deal with. If you can handle it before that 90 days is over with, staff can handle it before the 90 days. It's not an issue that we have to deal with. That's pretty much what you are doing right now.

Ms. Morris said yes.

Comm. Perona said you could say I don't have it this month. You have 90 days to collect that. If not, say I can't all the money here in 90 days, so you want to put it over a 12-month period. We've already set the interest rate and it's pretty much a done deal coming from this Board. We know we have this on the books and it's a receivable that we have, but I don't want to deal with it for the first 90 days. I'd rather staff handle that all they can. Does that make sense?

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mr. Walker said what you're suggesting perhaps is they be a proviso in here that before the secretary brings this to the Board, there be up to 90 days within which the secretary makes a good faith effort to collect it. After that, it would then come before the Board.

Comm. Perona said right, that's how he envisioned it.

Mr. Walker asked in the manner provided for in this amendment.

Comm. Perona said yes.

Mr. Stephens asked that's one thing, now, 0-6%?

Ms. Morris said 6%. Generally, it would be 6% because that's what we would be earning if it were sitting in our investment.

Mr. Stephens asked the Board if we have a consensus. We could make the motion at the end.

Ms. Scott said I would like to go back to receiving a report at least, each month so we know that action has taken place. I don't want to wait until the 90 days to see if we're going to take action. We have this case; we reached out; we'll keep you posted.

Mayor Hudson said a status report.

Ms. Morris said after the first 30 days.

Mr. Stephens said yes, even the ones after 90 day all the open ones to be included.

Ms. Scott said the most important thing is the standardization of the process. I think in reference to the amount what we should do is to determine the timeframe. I don't know how large these sums we're talking about.

Ms. Morris said what we need to consider too is that sums will be different. It's based on how much the retiree was given. I think that's something that's going to have to be weighed in after those 90 days as to how we handle it. Are we going to making it where it's collectible or it's criminal, because there are some retirees that might have been getting \$150 a month and they've been collecting it for 5 or 6 years? Now that we've got the 2 year in place where we audit every 2 years and they have to verify that the retiree is still living. We catch it a lot quicker than we had been but, there might be one retiree that for 2 years collecting.

Mr. Stephens asked if the criminal part was separated from the collection part.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mr. Walker said it is discretionary to be decided by the Board based upon the facts that are brought to it after the 90 days.

Mr. Cisneros asked if we determined if it is a criminal act. There's not a dollar amount that determines if it's a misdemeanor or a felony.

Mr. Walker said that's going to be part of the report I would imagine. The Board will understand the promissory note is going to be sent to this individual with request that it be executed based upon the of 6% and whatever period of time the Board thinks is appropriate for that particular instance; 6 months, 24 months, or whatever. I will point as the Board may have noticed, that in the event the person signs the note but feels either then or later that the payback period cannot be accommodated in light of that person's circumstances and it constitute a hardship, the individual would have the ability to comeback to the Board and ask the Board to stretch the payment period.

Mr. Stephens said I understand what you're saying, every circumstance and amount is different. That's different from the de minimis about. There're two different things. We still won't have to do anything for the first 90 days you were talking about.

Comm Perona said the person who this benefits, is deceased. Normally it's the retiree that ends up with the money, but that person is deceased. Does that create a problem as far as identifying the person responsible for paying it back? I know you're going to tell me it's part of a trust, they're in charge of the trust, they've made withdrawals from the trust. Is that a grey area we have to define in this process?

Mr. Walker said it's certainly a grey area. When this matter has been referred to me as counsel, traditionally in the past, we always by then had a target in sight. However, presumably, if this turned out it was the wrong person either when they were approached by the secretary during the initial 90 days or by counsel sending them the promissory note and asking them to pay, presumably, they'd come forward and say I'm not your guy because I was living in American Samoa at the time all this occurred and this person has the same name as mine. Different social security and different birthdate and everything else. At that point we come back to the Board and identify the problem.

Comm. Perona said I just had that detach. I got all the way down to the end and figured out the person who this benefits are no longer living. The way easy banking is now, I have banking right now where I can set things and move them all over the place. They don't know who I am. I just have the right numbers. I'm wondering if that's going to be a problem being able to identify that person who is ultimately responsible for paying that money back.

Mr. Walker said if we thought that, your attorney certainly would not want to proceed directly into suit knowing there is a substantial question about the defendant. One thing it wouldn't make your lawyer look very good if he lost the case.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mayor Hudson said a lot of times when people get old, you have another name on the checking account. You have a joint checking account because maybe they're ill, have dementia or whatever. Somebody is taking care of them. So, that money is coming into the account with that joint signature. I know they just go on spending. I think that could easily happen.

Mr. Stephens said we've settled most of this. What I recommend, we need to nail down what you all think the de minimis is. I don't think we need to make any motion. We will vote on the written policy when you bring it back to us next month. Is that the best way to do it Mr. Walker?

Mr. Walker said that would be satisfactory Mr. Chairman.

Mayor Hudson asked Ms. Morris if she had any suggestion for de minimis.

Ms. Morris said I was thinking anything less than \$50. Sometimes it's a lot that we've gone through and get to the last little bit and anything less we'll still try to recoup it. In the event that they don't, we'll go ahead and write this off.

Mr. Stephens asked after you've sent it out, should we put a time limit on it where it drops off your radar. If it's below \$50, what would that time limit be?

Mayor Hudson said to Ms. Morris I thought you decided that.

Ms. Morris said if we don't have policy in place as to our writ-off, we'll just keep it on the books. I love policy and rules. It makes my life very easy.

Mr. Stephens asked Mr. Walker if he has everything he needs.

Comm. Perona said we need to make motion don't we.

Mr. Stephens said no he has to get back to us with the policy.

c. CONSIDERATION OF COLLECTION STATUS REGARDING UNAUTHORIZED BENEFIT RECIPIENTS, RICHARD BROWN; CALVIN COLLINS; GENEVA DAVIS MALONE; AND REGINA SMITH

Mr. Walker said I asked to have that agenda item put there in case the Board wanted to take a look at those in light of a policy. Right now, we don't have a policy in place. We'll be drafting something to come back with at the end of the month. I'm happy to talk about those if the Board wishes. Information on the status of each account was provided at the last meeting. Otherwise I'm happy to bring it back next month when hopefully when there will be a completed policy in the Board's mind.

Mayor Hudson asked if Mr. Collins owe \$0.72. So, I think you could write that off, right?

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Ms. Morris said yes.

Comm. Perona said I got feeling there're policies out there that other communities have done over the years. There might be something good in all that. It's unfortunate we can't go to the FPPTA and that be a good question to ask. We've learned more from those sessions. There's got to be a way we can find out quicker. With the federal government when my father passed away, everything just stopped the next day.

Mr. Stephens said the mayor asked a question before she was on the Board, she asked a question of the Retirement Board and I sent an email to the FPPTA and got you an answer. I don't know if we could have someone administratively maybe ask that question. Are there policies out there. If you ask the FPPTA specifically, they will get back with you and they are very thorough.

Comm. Perona said there might be one little element in that, that we didn't think about; might answer some of this.

ITEM NO. 9 ~ CONSENT AGENDA

Mr. Stephens said the next item is the Consent Agenda. **A motion was made by Ms. Johnna Morris and seconded by Comm. Tom Perona to approve the refund of member contributions. All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.**

ITEM NO. 10 ~ CONSIDERATION OF ABSENCES

None.

ITEM NO. 11 ~ BOARD MEMBER COMMENTS

Mr. Cisneros said he does have one comment and it got me thinking about what Comm. Perona said when Callan was on the phone. With the retail market being less than stellar would be, I'd like to see if there's some feedback from Callan or whoever we need to get it from about how the retail market is being revived. I've read some stuff about, like the Sears. They're closing Sears and JC Penney; that they are going to be filled with grocery stores and Amazon warehouses. That will revitalize that market. It would be interesting to see how that affects the retirement portfolio. I think that's pretty important. If you go to a grocery store in a mall, that's going to attract quite a bit of traffic, maybe revitalize some of the empty stores.

Comm. Perona said I expect you're going to hear that from Heitman when they come in September.

Ms. Morris said she wanted to let everybody know we have the election process going on for our two general members, Keith and Caleta's position. Those results are being tallied pretty soon. We'll know at the October meeting if they remain in the position or we have new people on the Board. That is underway. Also, I did send emails to everybody to let you know the FPPTA virtual conference that will be going on. If you plan on attending, let Christine know. I sent the email yesterday.

**CITY OF FORT PIERCE RETIREMENT AND BENEFIT SYSTEM
MINUTES OF MEETING HELD**

August 20, 2020

Mr. Stephens said he wants to verify this with everyone, as long as we went in January, we won't have to go back until next January, February whenever they have it. So, we're good until then.

Mr. Cisneros said I have to get mine done because I got the letter from them. That's why I have to attend.

ITEM NO. 12 ~ ADJOURNMENT

The next item was next month's meeting. The next meeting is scheduled for September 17, 2020 at 2:00 p.m.

All those in favor of the motion signified by saying aye. There was no opposition and the motion carried unanimously.

The meeting was adjourned at 3:20 p.m.

ATTEST:

Secretary/Treasurer

Chairperson

Note: These minutes are not verbatim, only important issues and are reproduced in writing for the benefit of the Fort Pierce Retirement and Benefit System members. The recording itself is the official record for the meeting. The meeting tape/cd is available.

Retirement Board

Meeting Date: 09/17/2020

Re: Request for Retirement from Jo-Ann Bilyk

Submitted For: Johnna Morris, Finance Director, Finance Department

Information

SUBJECT:

Request for Retirement from Jo-Ann Bilyk with 9 years and 4 months of service with the Fort Pierce Utilities Authority

Attachments

Form Review

Form Started By: Queen Thompkins

Started On: 09/04/2020 12:04 PM

Final Approval Date: 09/04/2020

Retirement Board

Meeting Date: 09/17/2020

Re: Request for Retirement from Charles D. Connell

Submitted For: Johnna Morris, Finance Director, Finance Department

Information

SUBJECT:

Request for Retirement from Charles D. Connell with 10 years of service with the Fort Pierce Utilities Authority

Attachments

Form Review

Form Started By: Queen Thompkins

Started On: 09/04/2020 12:06 PM

Final Approval Date: 09/04/2020

Retirement Board

Meeting Date: 09/17/2020

Re: Report from Heitman

Submitted For: Johnna Morris, Finance Director, Finance Department

Information

SUBJECT:

Report from Heitman

Attachments

Heitman Report

Form Review

Form Started By: Queen Thompkins

Started On: 09/11/2020 08:19 AM

Final Approval Date: 09/11/2020

Presentation for:



September 17, 2020

HEITMAN

A REAL ESTATE INVESTMENT MANAGEMENT FIRM

Heitman Overview.....	3
Fund Overview.....	5
Market Update.....	7
Performance.....	17
Strategic Positioning.....	21
Capital Capacity.....	25
APPENDICES	
– Account Statement.....	30
– Biographies.....	32
– Performance Notes & Disclaimer.....	34

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Heitman Overview

Heitman is a Real Estate Specialist

HEITMAN

50+ years

investing on behalf of clients with an exclusive focus on real estate

\$42.6 billion

managed across three complementary business units

36 partners

from across the Heitman platform own 100% of the company



\$33.7B
PRIVATE EQUITY



\$4.1B
PRIVATE DEBT



\$4.8B
PUBLIC EQUITY



- CHICAGO**
- LOS ANGELES**
- NEW YORK**
- LONDON**
- FRANKFURT**
- LUXEMBOURG**
- HONG KONG**
- MELBOURNE**
- SEOUL**
- TOKYO**

As of June 30, 2020

Fund Overview

INVESTMENT STRATEGY

Cultivate a high-quality, low-risk portfolio of stabilized, income-producing assets diversified by property sector and economic exposure

- Research-based property sector allocations designed to outperform peer group
- Geographic strategy tailored to each property sector
- Conservative leverage strategy
- Low risk value-added activities focused on consistency of income return
- Active asset management adds value through every stage of ownership

FUND PROFILE

Gross Asset Value	\$11.9 billion
Net Asset Value	\$8.7 billion
Number of Investments	115
Number of Properties	382
Leased Percentage	95%
Leverage %	26%
Number of Investors	126
Trailing One-Year Gross Dividend Yield	3.9%



Biltmore at Camelback – Phoenix

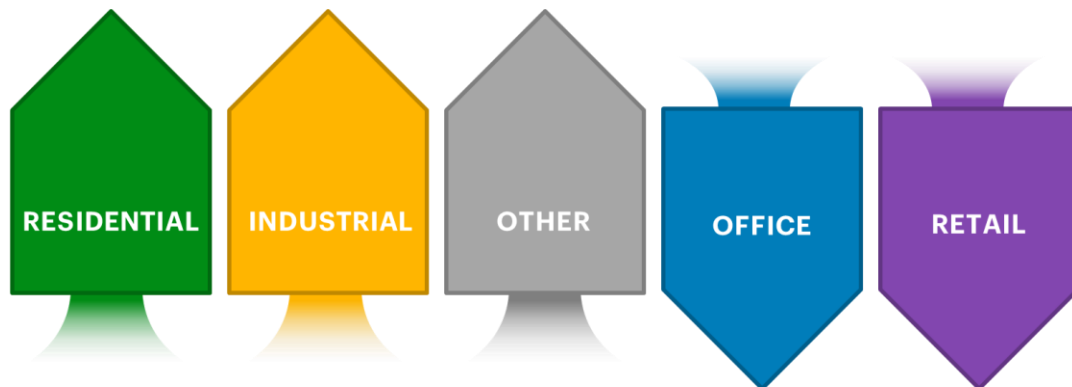
As of June 30, 2020

Please read Performance Notes pages for important disclosure information.

Market Update

Disruption to property markets was already occurring before the pandemic

- Drivers are demographic shifts, technological disruption/innovation, and structural changes to the economy
- Results are a growing convergence of uses, the need for greater flexibility, and increased operational intensity
- Some sectors are becoming less institutional (retail, office) while others were becoming more so (industrial, residential, specialty)



DEMOGRAPHICS



TECHNOLOGY



ECONOMY

STRUCTURAL SHIFTS

FLEXIBILITY

CONVERGENCE OF USES

OPERATIONAL INTENSITY

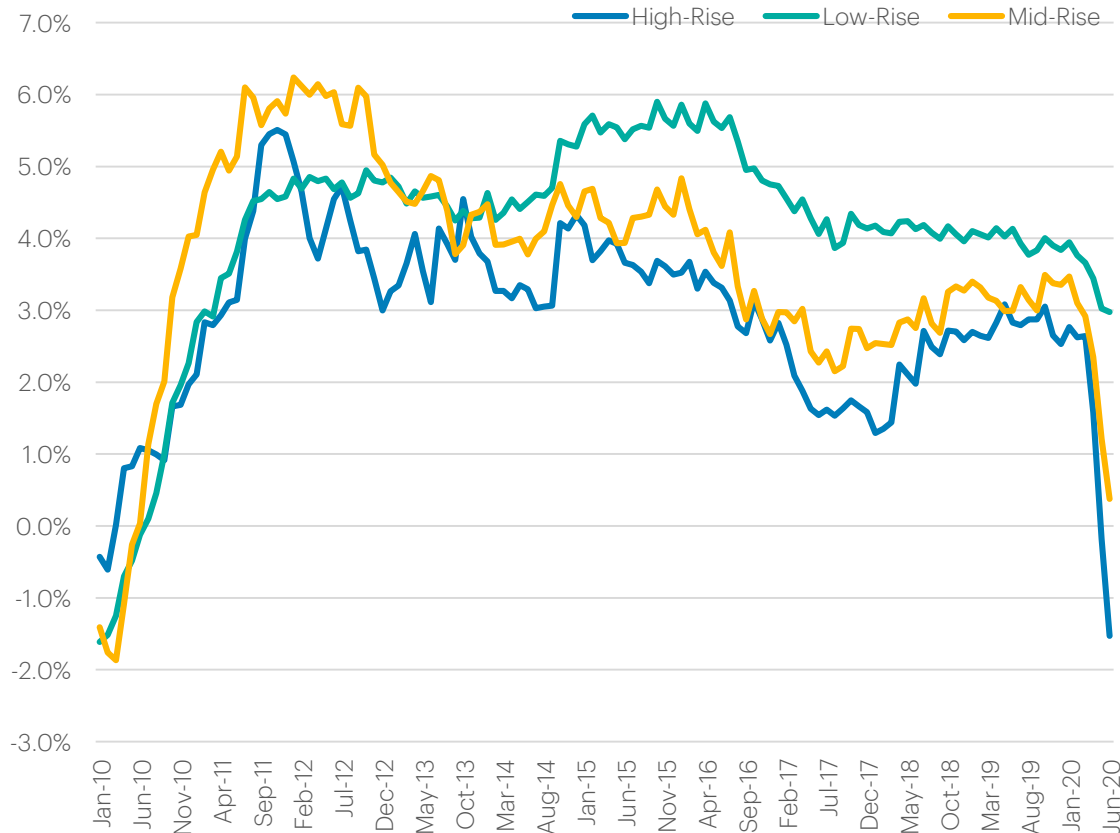
Assessing COVID Property Sector Impacts

HEITMAN

Sector	COVID-19 Immediate Impact	Near-term Repricing	Long-term Risks: Change due to COVID-19
Single-Family Rental	Low	Low	Low
Industrial	Medium	Low	Low
Medical Office	Medium	Low	Low
Self-Storage	Medium	Low	Low
Apartment	Medium	Medium	Low
Student Housing	High	Medium	Medium
Senior Housing	High	High	Medium
Office	Medium	Medium	High
Hospitality	High	High	Medium
Open-Air Retail	High	High	Medium
Malls	High	High	High

Source: Heitman Research

**YOY REVENUE CHANGE (REV/ASF) BY BUILDING HEIGHT
UNITED STATES, 2010-2020**



Source: RealPage; Heitman Research

Near-term COVID Impact

- Negatives
 - Downward rent pressure
 - Eviction restrictions
 - Numerous operational challenges
- Positives
 - Resilient demand
 - Decline in move-outs

Things to Watch

- Renter defaults as fiscal support wanes
- Need for more space due to more WFH?
- LT impact on urban gateway demand?
- Rent control regulations

Long-term Outlook

- Demographic trends and increased propensity to rent support demand
- Recession impact may boost Gen Z demand
- Broad-based demand supports a wide range of investment strategies

Near-term COVID Impact

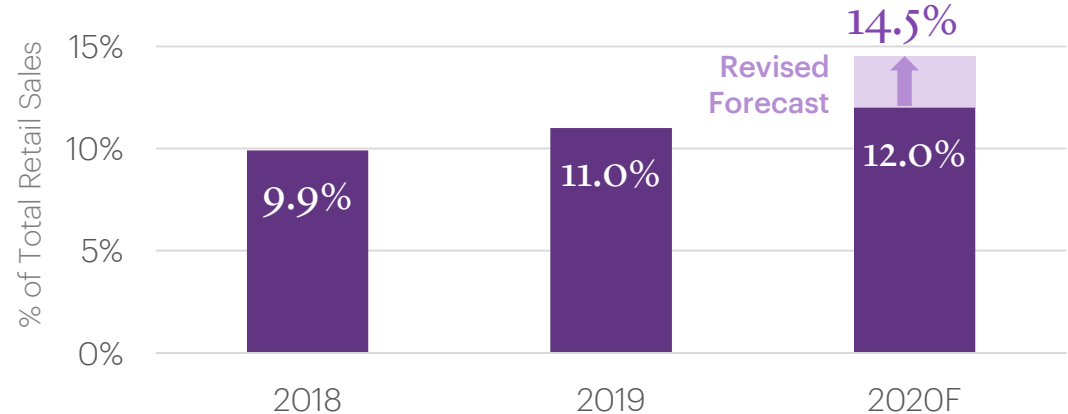
- Negatives
 - Accelerating demise of tired retailers and centers
 - Increased e-commerce penetration
 - Experiential tenants: previous strength now most at-risk
- Positives
 - Accelerating demise of tired retailers and centers
 - Stores as fulfillment centers (ship from and pick-up)

Long-term Outlook

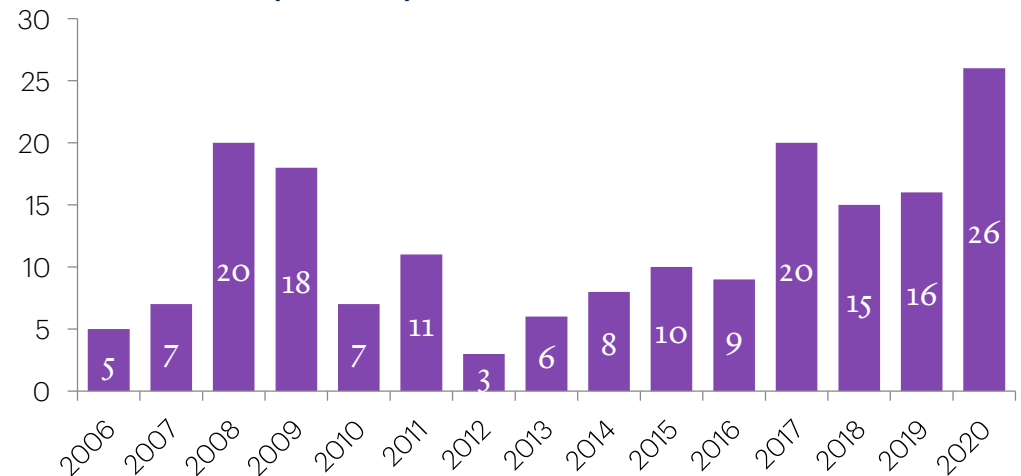
- Shrinking of the retail universe is inevitable but painful; COVID has accelerated it
- When will experiential retail return?
- There will still be winners and losers – physical retail remains essential
- Accelerated e-com penetration highlights need for strong omnichannel platform

Source: eMarketer; The Deal; AlixPartners; Reuters; Heitman Research

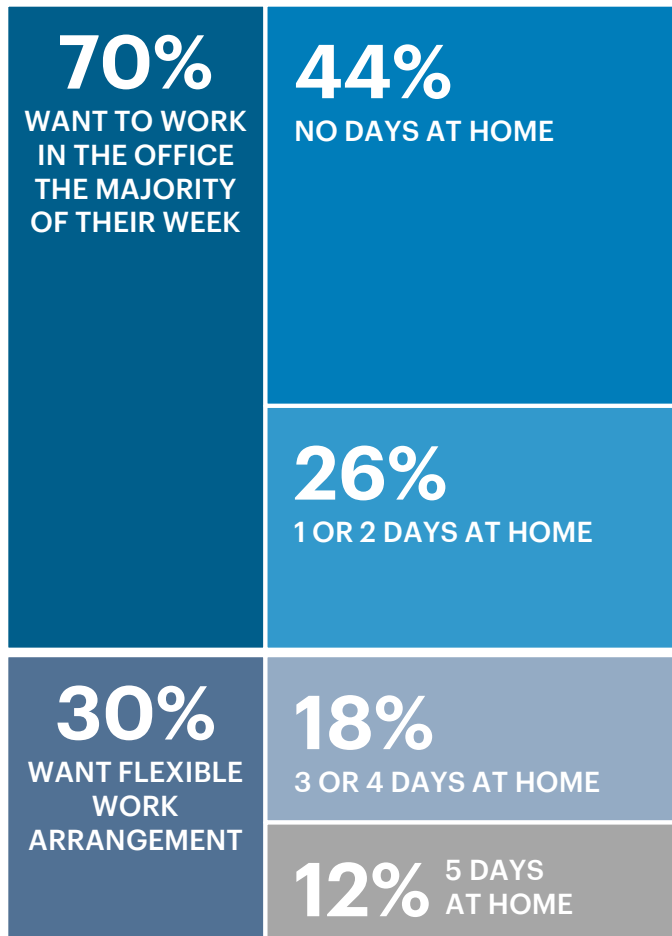
**E-COMMERCE PENETRATION RATE
US 2018 – 2020F**



**RETAILER BANKRUPTCIES
US 2006 – 2020 (AUGUST)**

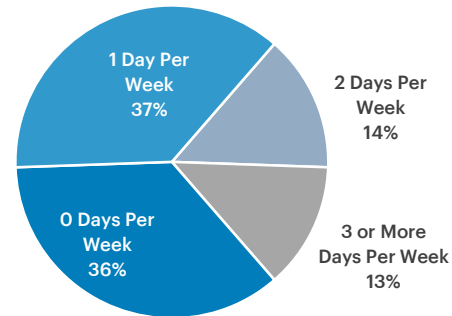


Do you prefer to go back to the office or continue working from home?

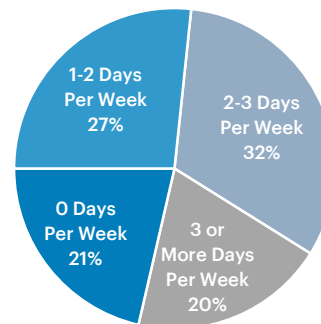


Source: Gensler, JLL ; Heitman Research

Prior to the COVID-19 outbreak, approximately how many days did you work from home?



Once it is deemed generally safe to return to normal work activities, how many days would you like to work from home?



Existing Trends

- More operationally and capital intensive
- Greater volatility in cash flows
- Tenants desire more flexibility, amenities, and services
- WFH adoption was already accelerating

COVID Impacts

- Remote working vs. de-densification of office space
- Pros and cons of the pandemic WFH experiment
- Importance of in-person interaction?

Long-term Outlook

- Commercial office has a smaller weighting in institutional portfolios
- Location, design, and technology need to change with the times
- WFH adoption will vary widely by industry and job function

Existing Trends

- Importance of supply chains and speed to market driving long-term space demand
- Location matters more than ever, broadening the universe of attractive markets and submarkets

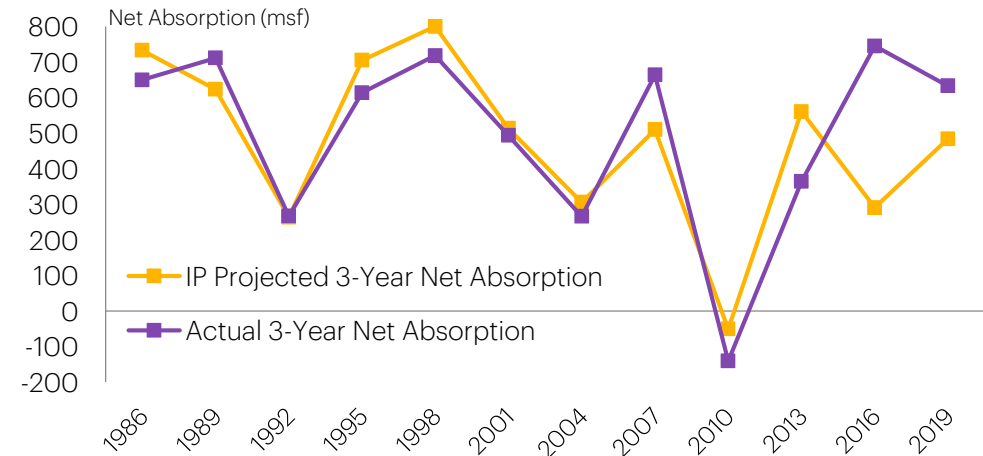
COVID Impact

- Once-in-a-lifetime opportunity for e-commerce firms to gain new users created by pandemic
- Reinforcement of importance of omnichannel model for retailers
- Rethinking of lean just-in-time inventories could be additional tailwind for demand
- Some impact from slower economy, retailer woes

Long-term Outlook

- Continue to focus on major population centers and key logistics hubs
- Incorporate broader array of submarkets and product types (infill, last-mile, cold storage)

INDUSTRIAL PRODUCTION FORECASTS VERSUS ACTUAL INDUSTRIAL DEMAND



MOST ACTIVE OCCUPIERS YTD - JUNE 2020

Occupier	SF*
Amazon	41,873,226
Geodis	3,669,117
FedEx	2,821,607
XPO Logistics	2,617,648
Home Depot	2,428,921
Target	2,018,446
Walmart	1,574,665
Medline	1,400,000
Ball Corporation	1,378,568
Nestle Purina	1,356,694

*Includes New Leases, Renewals, and User Sales



Near-term COVID Impact

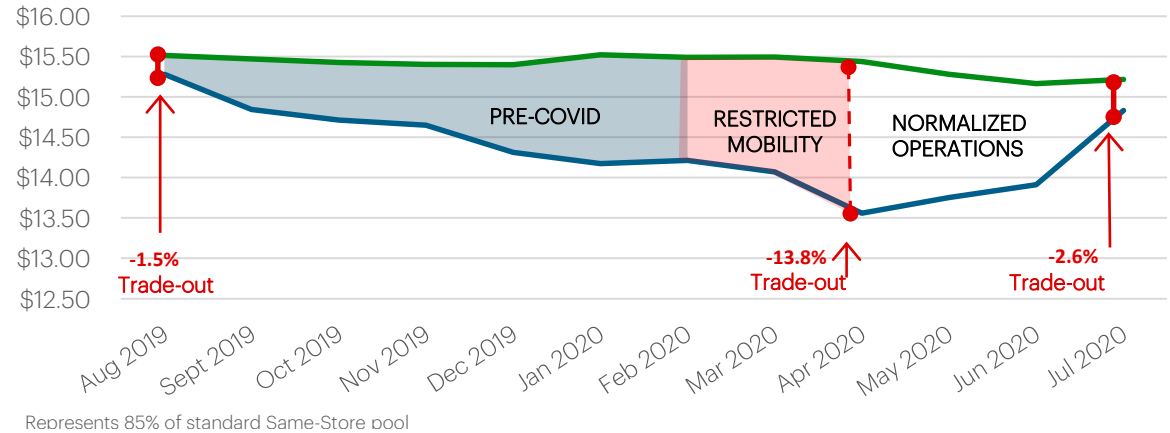
- Negatives
 - Timing of shutdown
 - Eviction moratoriums
 - No existing customer rent increases
- Positives
 - Online leasing platform development
 - Resilient demand
 - Flattening of new supply curve

Long-term Outlook

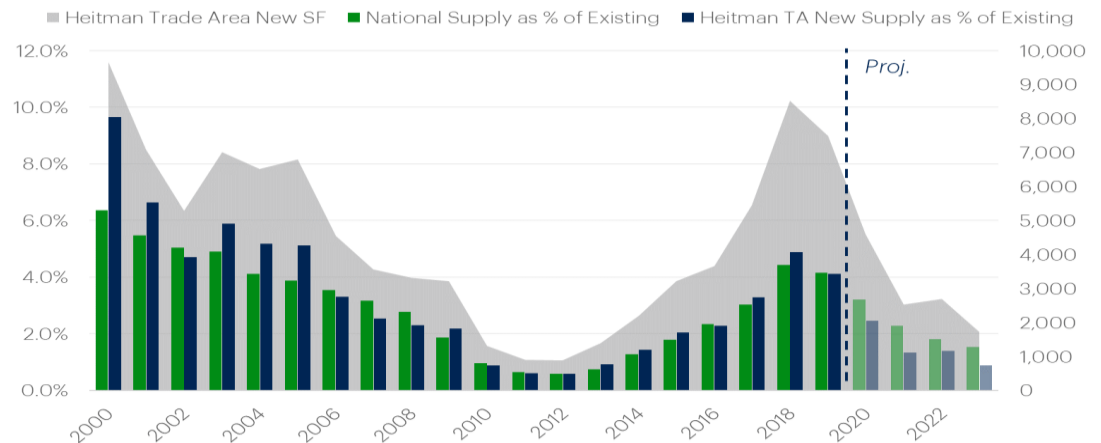
- Demand still less linked to macroeconomy and driven by life events
- Work-from-home induced demand may boost absorption

Sources: Heitman Research, Yardi Matrix

MARKET RENT TREND CLAWING BACK INITIAL IMPACT OF COVID



SELF STORAGE NEW SUPPLY HEITMAN PORTFOLIO VERSUS US 2000-2023



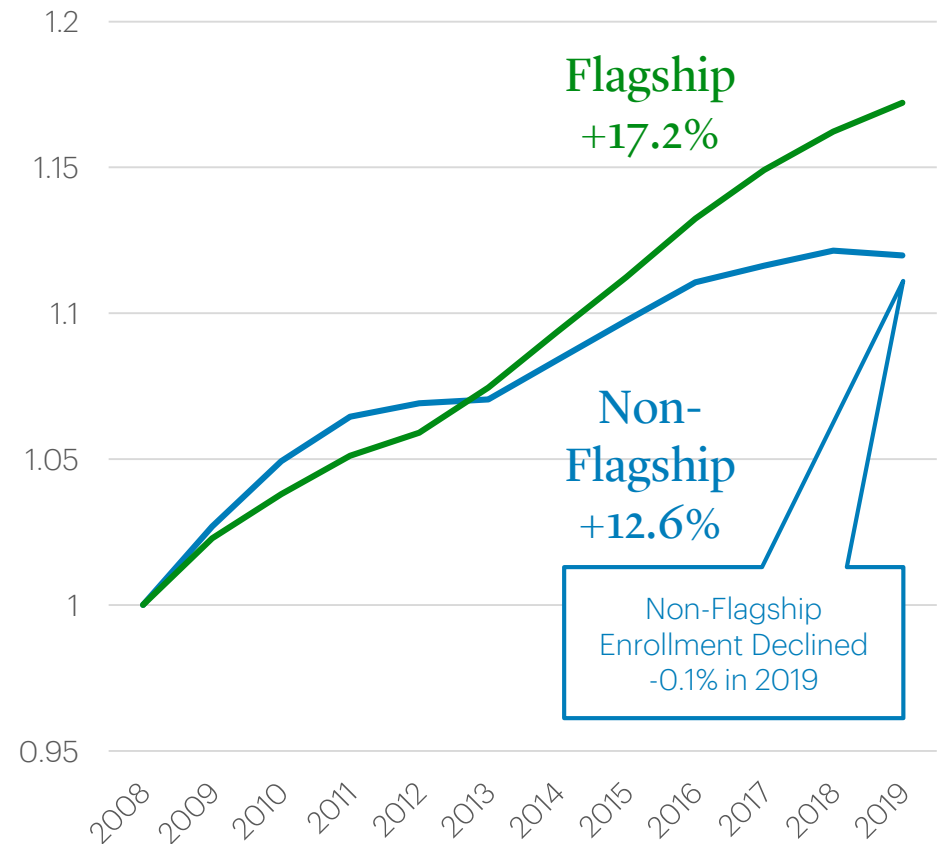
COVID Impact

- Despite tremendous near-term uncertainty, the long-term outlook for student housing is generally positive, although some markets will come under pressure
- The supply/demand balance varies widely across markets
- Top-tier university locations will be most resistant to any permanent shift toward online learning
- Short-term dislocation creates potential for consolidation and modernization

Things to Watch

- International student enrollment trends
- College closures
- De-densification of on-campus housing
- University master lease potential

**INDEXED TOTAL ENROLLMENT GROWTH
US 2008 - 2019**

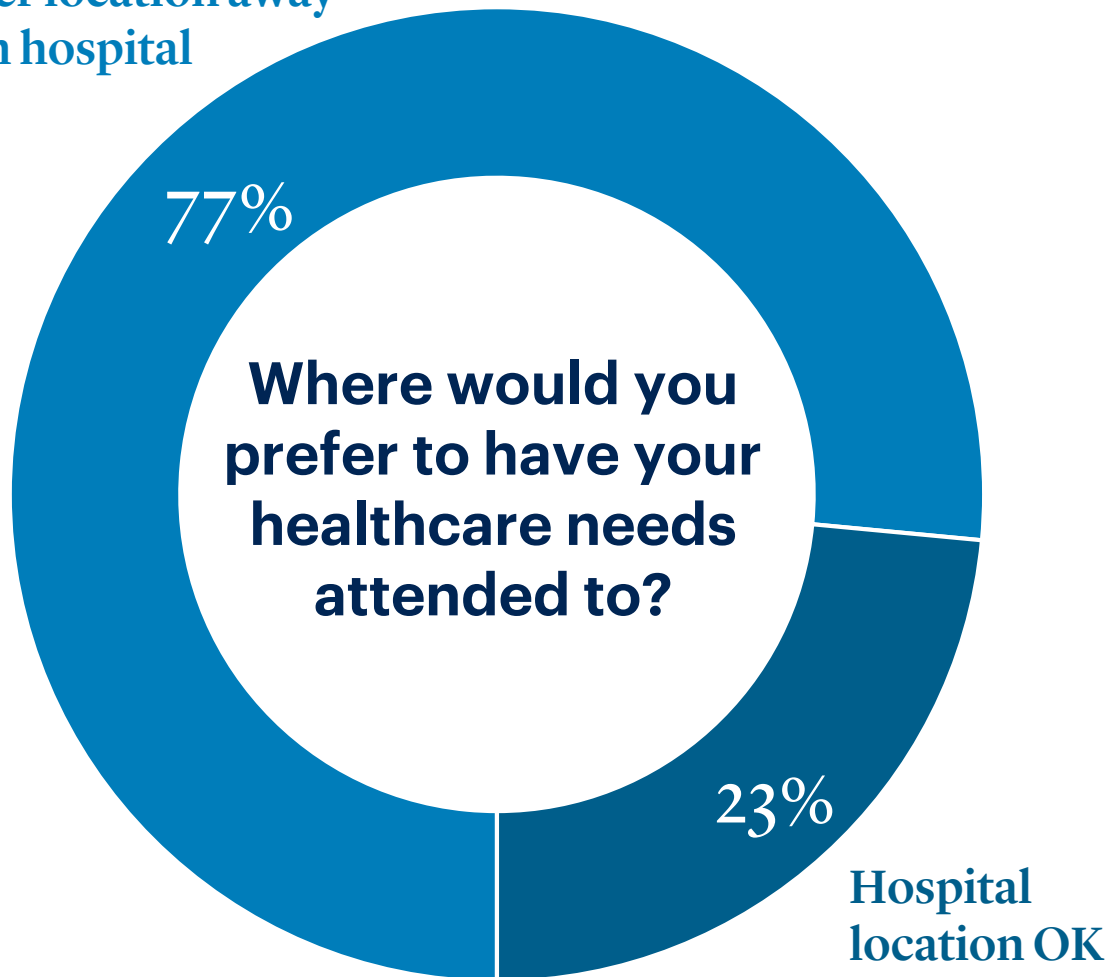


Source: Axiometrics; Cushman & Wakefield; Heitman Research

A flagship university defined as the best-known, most-selective, largest, and highest-funded public universities in a state. These schools will also typically have a land-, sea-, or space-grant designation

Medical Office: Defensive Sector Supported by Demographic Trends

Prefer location away from hospital



Near-term COVID Impacts

- Negatives
 - Some temporary practice closures
 - Temporary suspension of elective procedures
 - Tenant financial pressures
- Positives
 - Growing attractiveness of outpatient settings

Things to Watch

- Rise of telehealth
- Loss of health insurance
- Monetization of provider real estate

Source: CVR and Carmichael Company (June 2020 survey of consumers in Atlanta, Dallas, Minneapolis, Phoenix and Louisville with 2,018 responses)

Performance

Strategic Plan is reaffirmed by current events

**Addresses resources, timing, performance
improvement, supported by Research**

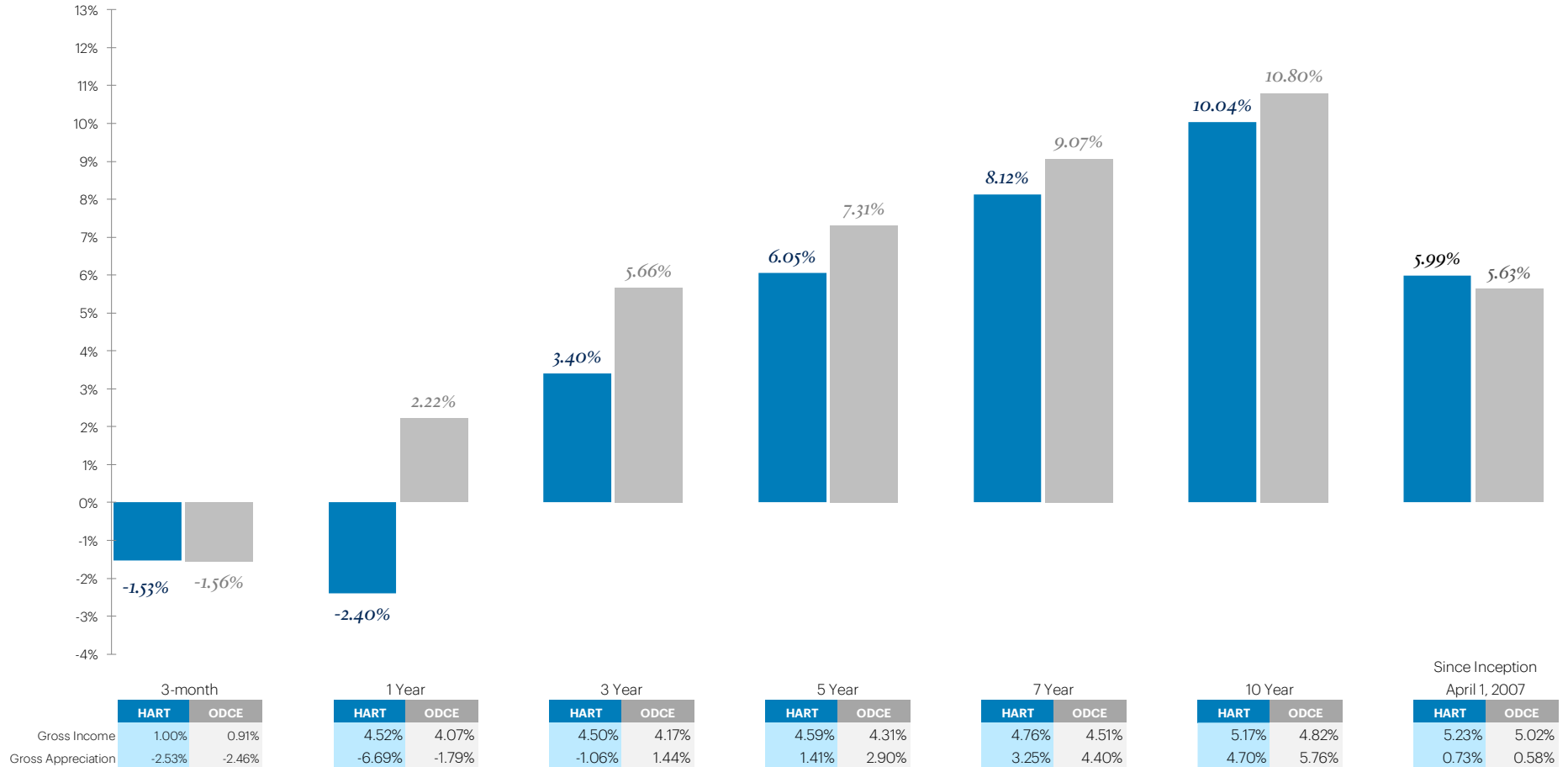
Human Resources focused on managing portfolio through crisis

**Existing resources available to
address expected liabilities**

Fund Performance Summary

HEITMAN

GROSS TIME-WEIGHTED RETURNS AS OF JUNE 30, 2020



Past performance is not indicative of future results.

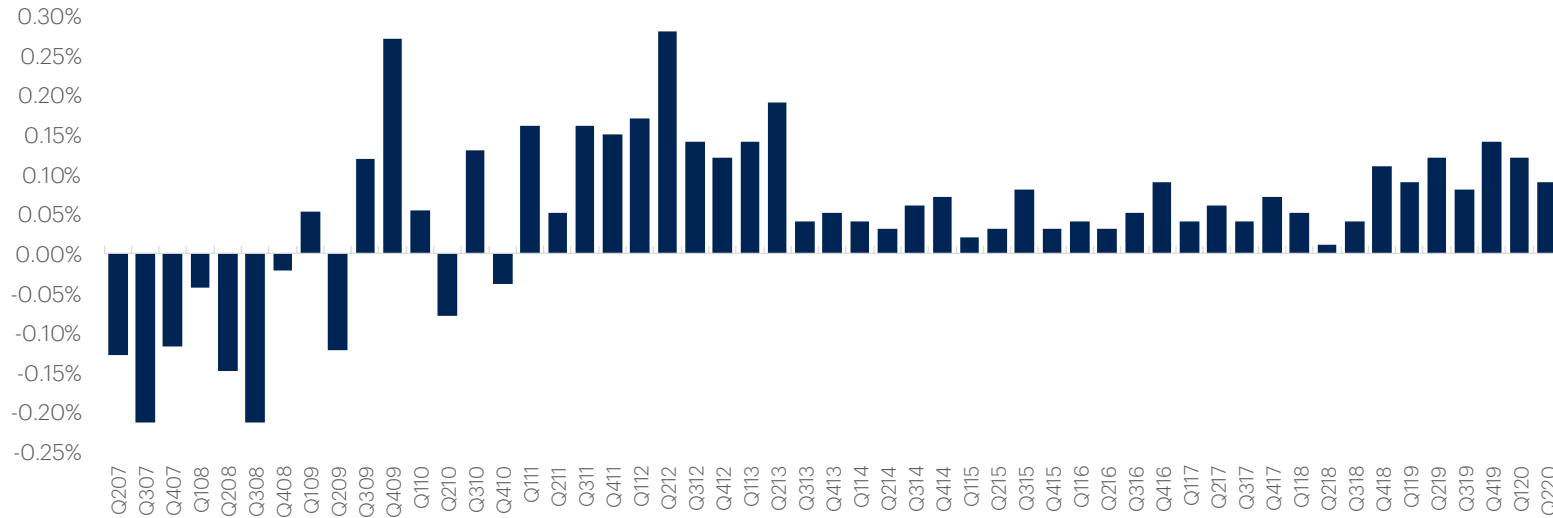
Please see enclosed complete performance presentation and footnotes adhering to the GIPS standards for important disclosure information.

1. ODCE = NCREIF Fund Index - Open End Diversified Core Equity

Consistent Income and Dividend Return

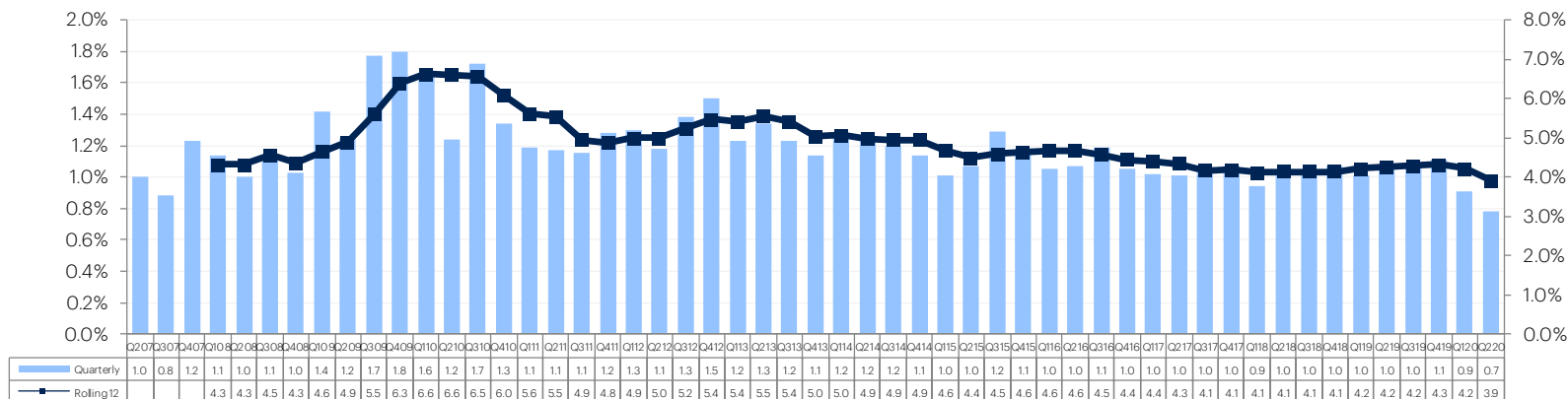
HEITMAN

INCOME PERFORMANCE RELATIVE TO ODCE¹



Income return exceeds ODCE for **38 consecutive quarters**

HART GROSS DIVIDEND YIELDS



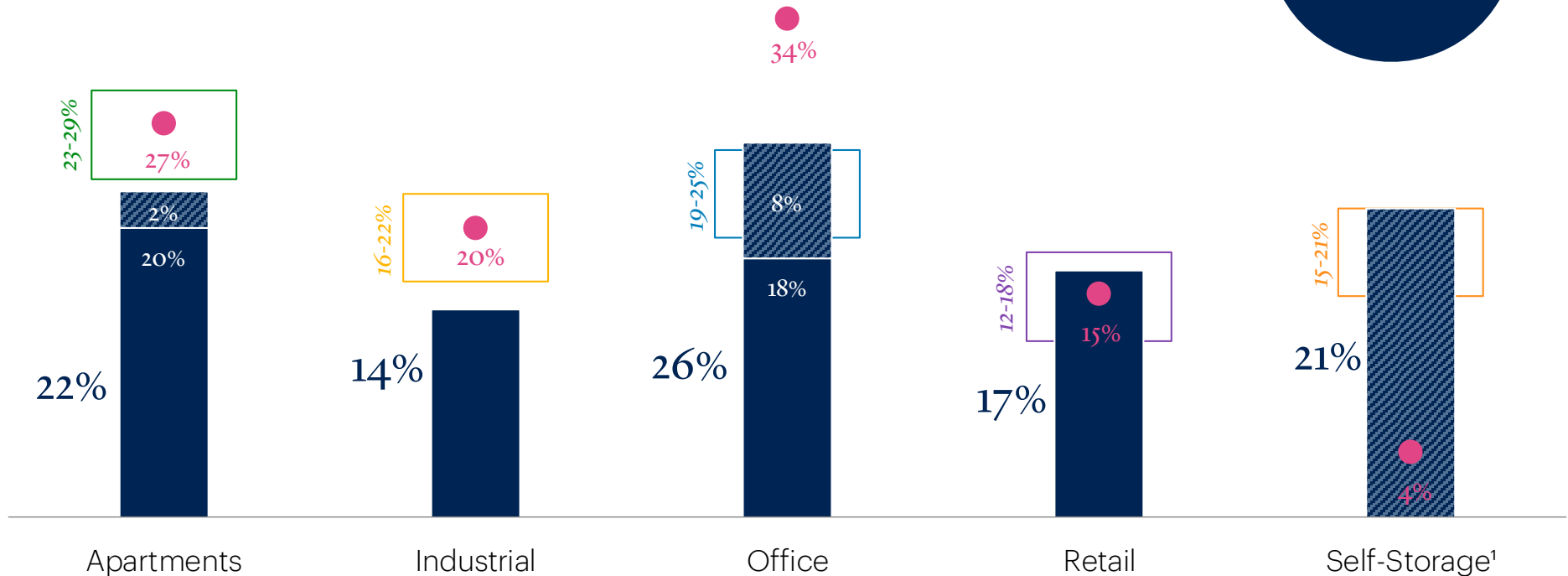
Dividend yield benefits from portfolio allocation

1. ODCE = NCREIF Fund Index - Open End Diversified Core Equity

Strategic Positioning

Property Type Diversification and Target Ranges

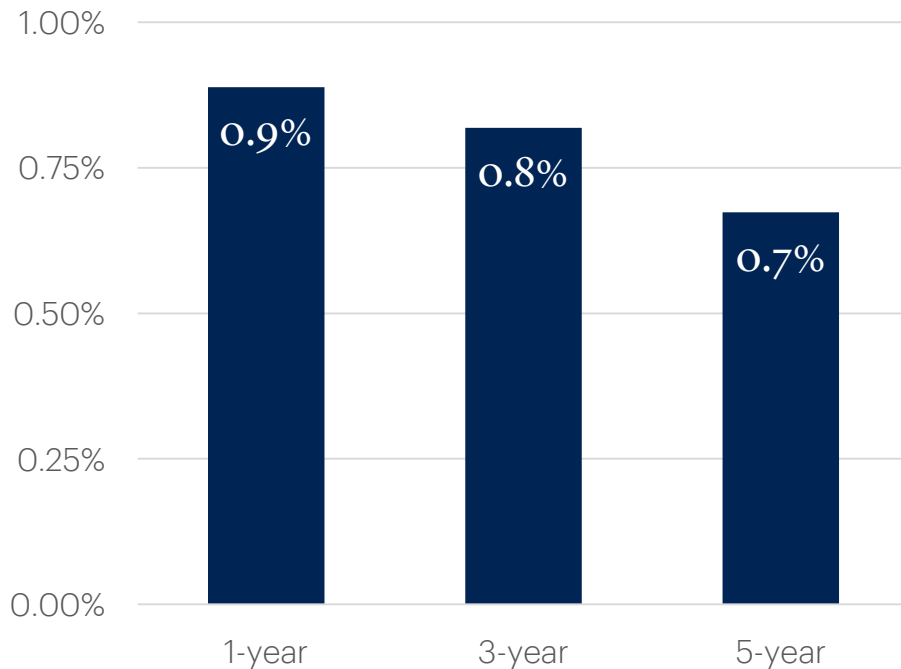
- HART Total
- HART Traditional Sectors
- ▨ HART Delinked Sectors
- HART Target Range
- ODCE



Based on gross asset value as of June 30, 2020
 ODCE = NCREIF Fund Index - Open End Diversified Core Equity
 1. ODCE allocation includes 1% to Hotels and 3% to Other

Cash flow advantage relative to ODCE

UNLEVERED CASH FLOW RETURN RELATIVE TO ODCE

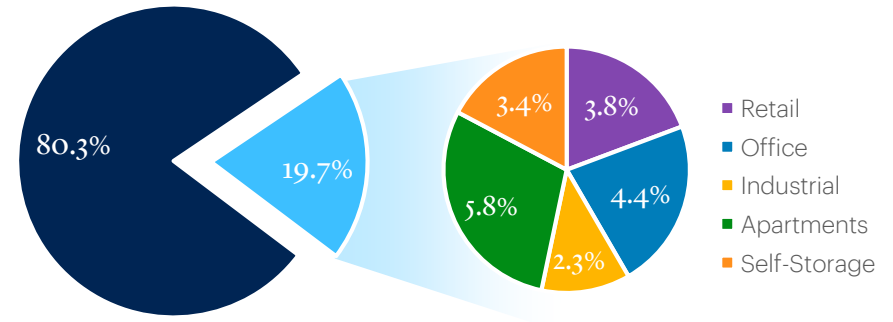


Source: MSCI Performance Report, Includes only Direct Property Standing Investments

5-YEAR PERCENTAGE OF INCOME PRODUCED

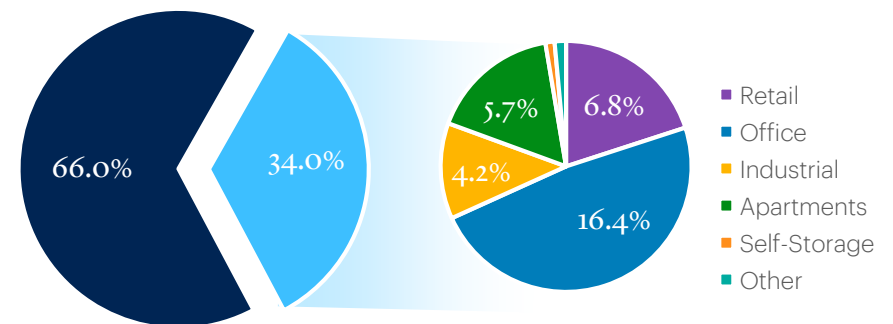
HART

■ Unlevered Net Cash Flow ■ Capital Expenditures



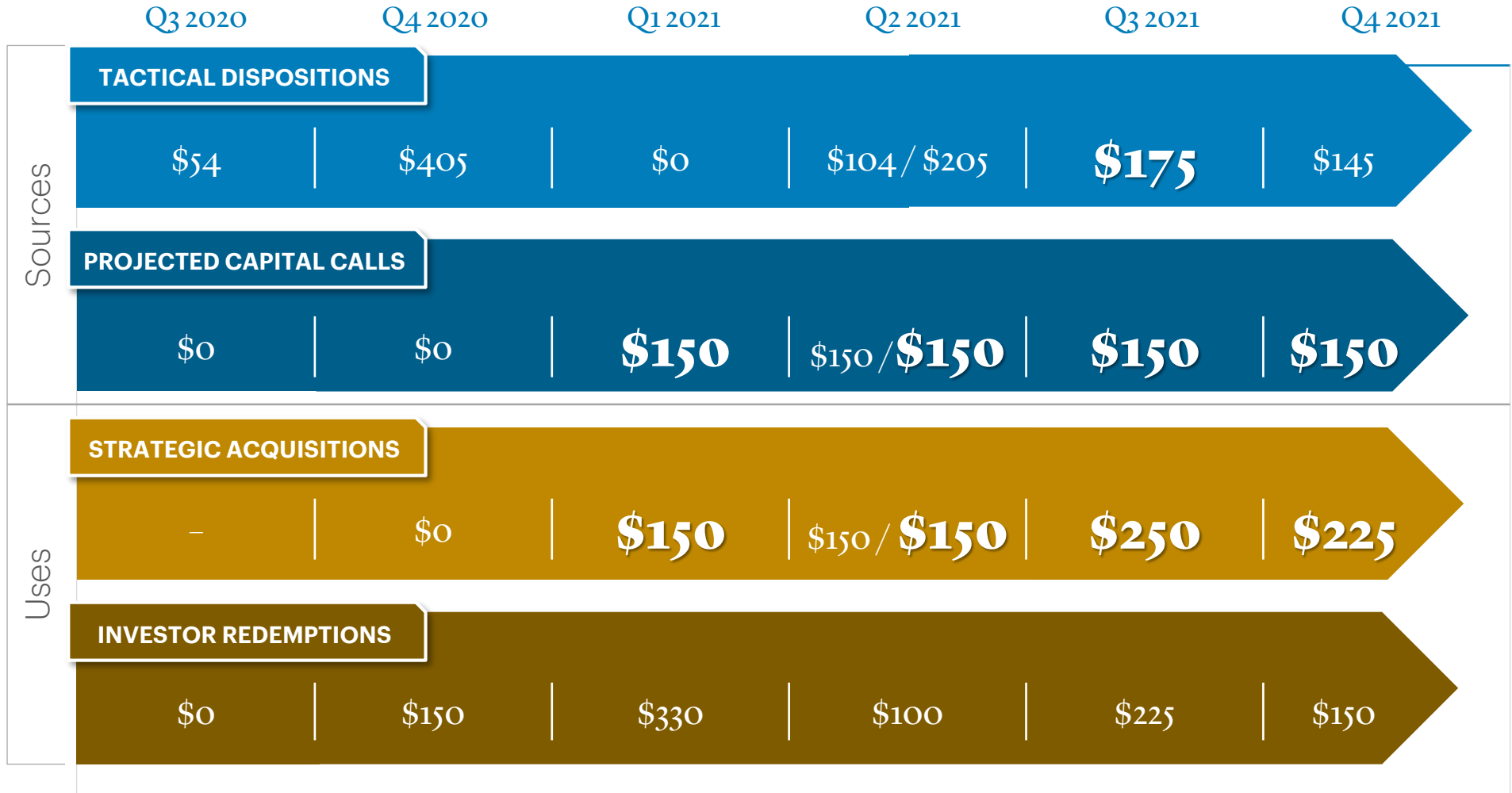
ODCE

■ Unlevered Net Cash Flow ■ Capital Expenditures



Strategic Plan Utilizing Additional Capital Resources

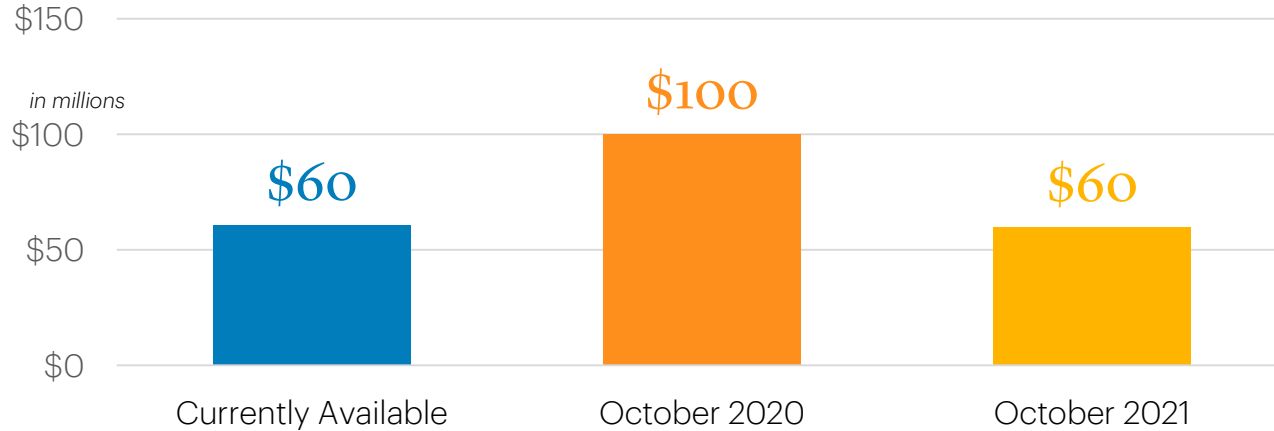
HEITMAN



Dollars represent net equity in millions
 Illustrative purposes only

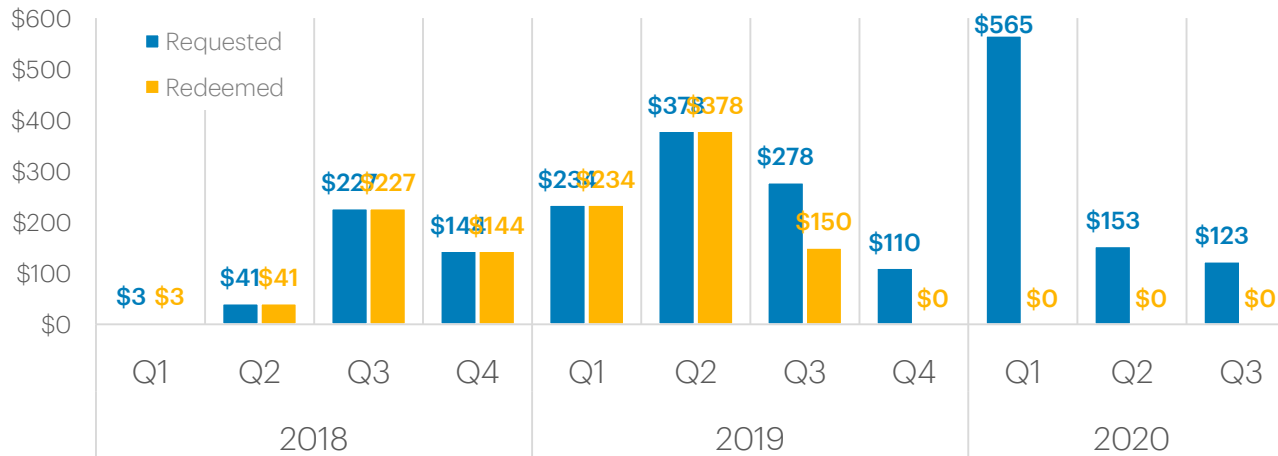
Capital Capacity

COMMITMENT SCHEDULE¹



\$220
million
investor commitments

INVESTOR REDEMPTIONS²

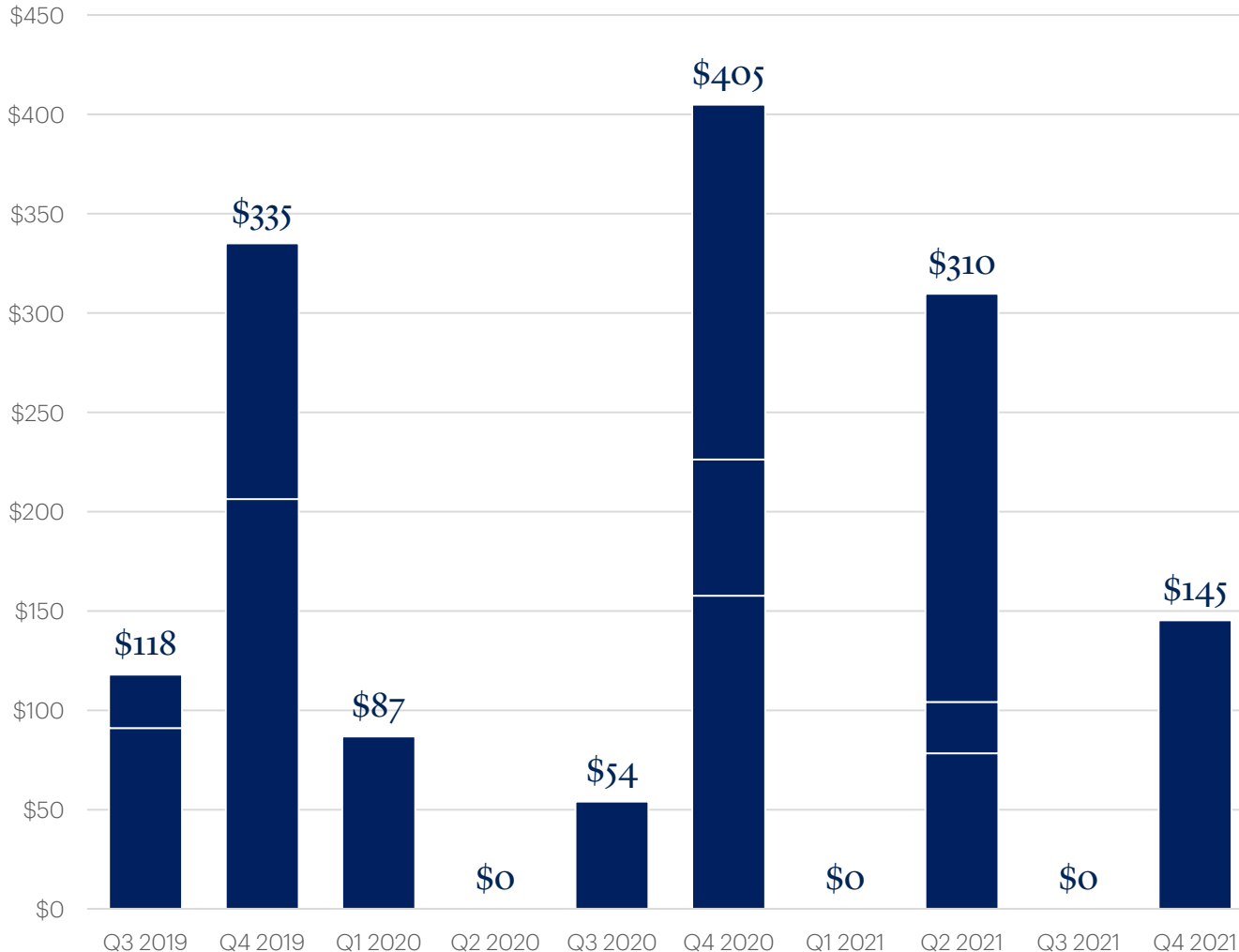


\$1.08
billion
outstanding
redemption requests

As of June 30, 2020

1. Commitments available to be drawn at dates indicated in the legend
2. Redeemed amounts reflected in time period when redemption request was submitted

PACE OF DISPOSITIONS PLANNED



As of June 30, 2020

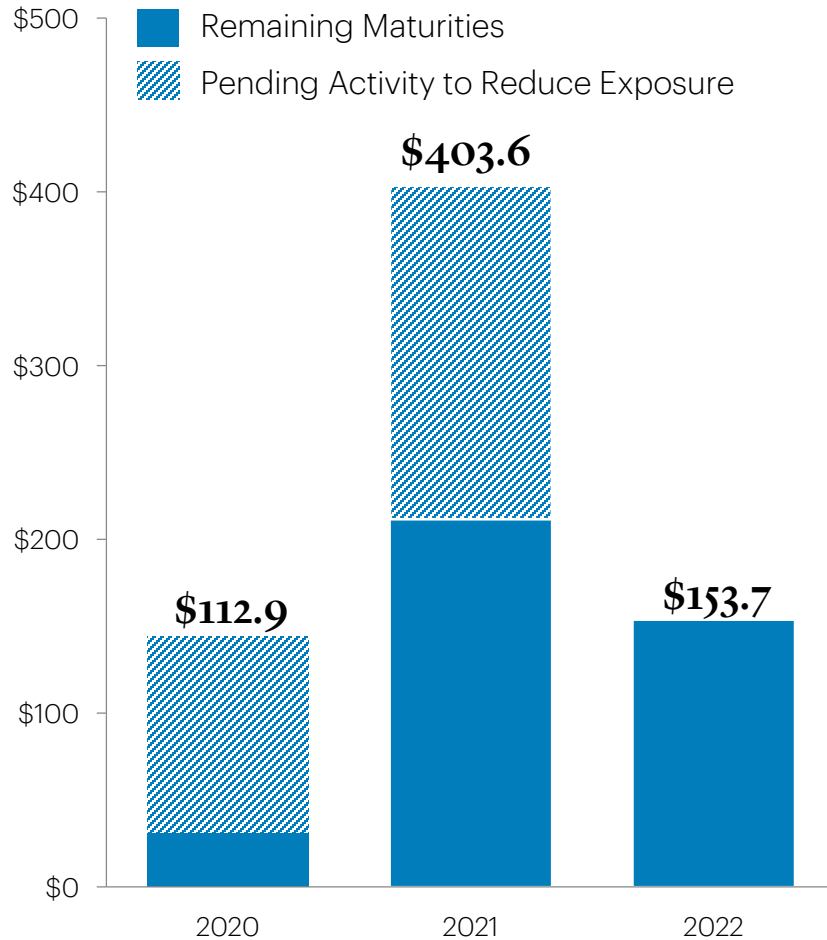
Dispositions driven by completion of business plans

Generates capital to fuel strategic plan

Additional assets will be identified over time

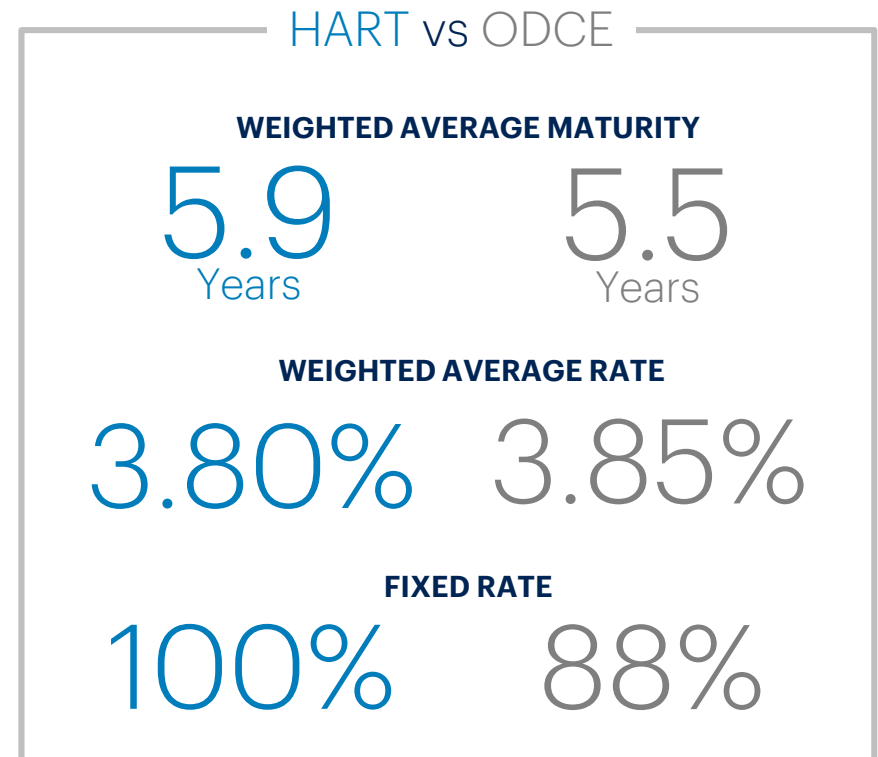
Identified asset sales shape portfolio construction

LOAN MATURITIES BY YEAR (\$ IN MILLIONS)



As of June 30, 2020

Full Capacity of Line of Credit Remains Available



**Strategic Plan is reaffirmed by
current events**

**Addresses resources, timing, performance
improvement, supported by research**

**Property sector allocation reflects
trends in how real estate is evolving**

**Designed to deliver an outcome that
meets performance objectives**

Appendix: Account Statement

HART Statement of Account

HEITMAN

City of Ft. Pierce Retirement and Benefit System

Commitment Date: 04/12/13, Amount: \$12,000,000

Commitment Date: 07/17/15, Amount: \$5,000,000

CONTRIBUTION SUMMARY

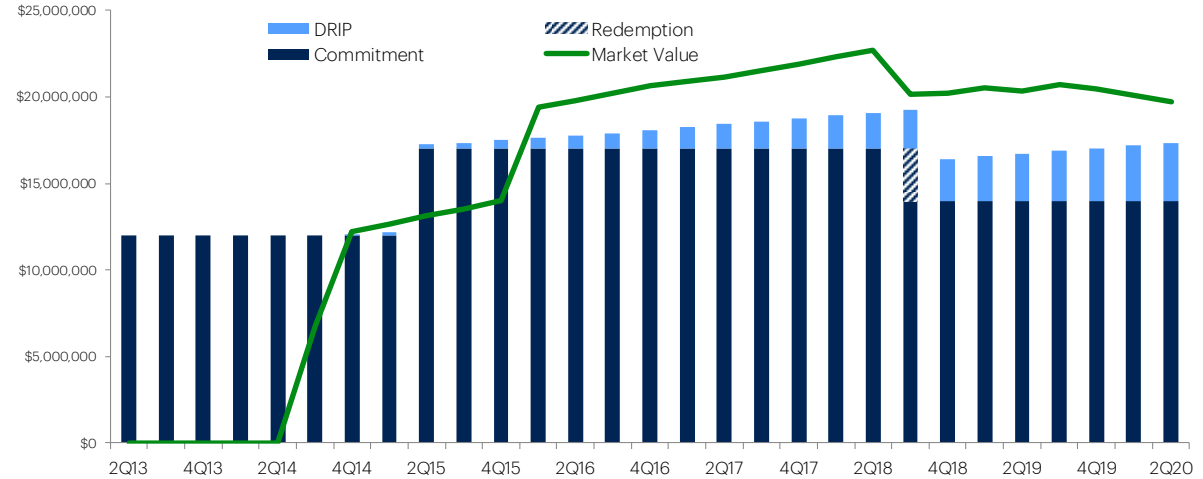
Original Commitment drawn	7/7/2014	\$6,604,787
Additional Commitment drawn	12/2/2014	\$5,395,213
Additional Commitment drawn	1/12/2016	\$5,000,000
Reinvested Dividends (DRIP)		\$3,359,272
Total Commitments drawn		\$20,359,272
Ending Market Value		\$19,731,682
Remaining Capital Commitment		\$0

DISTRIBUTION SUMMARY

Gross Distributions	\$4,469,773
Redemptions	\$3,000,000
Fees Paid to Date	(\$1,110,501)
Net Distributions	\$6,359,272

RECENT DISTRIBUTION

Gross Distribution – 2Q2020	\$157,834
Fees	(\$51,546)
Net Distribution – 2Q2020	\$106,288



Gross Return¹: **7.01%**

Net Return¹: **5.90%**

Gross Multiple²: **1.34x**

Net Multiple³: **1.29x**

As of June 30, 2020

1. Since inception time-weighted return

2. Gross Multiple = (Ending Market Value + Gross Distributions) / Total Commitment

3. Net Multiple = (Ending Market Value + Net Distributions) / Total Commitment

Appendix: Biographies

Blaise Keane is an Executive Vice President and Senior Portfolio Manager for Heitman America Real Estate Trust ("HART") and an equity owner of the firm. He has overall responsibility for the HART fund including strategy development and implementation, investments, financings, dispositions, asset management, and client service and marketing. Prior to heading HART, Blaise was the senior portfolio manager for one of Heitman's largest separate account client portfolios. Before joining the Portfolio & Asset Management team, he was active in identifying, structuring and executing equity investment opportunities for Heitman's institutional pension fund clients across North America. Prior to joining Heitman via its merger with JMB Institutional Realty Corporation, he was with JMB Realty Corporation. His responsibilities with JMB included asset management, loan restructuring, property financing, and property disposition activities. He began his career with Ernst & Young, an international public accounting firm. While with Ernst & Young, he served many of the firm's real estate and financial services clients. Blaise received a BA from St. Mary's University of Minnesota and a Masters of Management from the J.L. Kellogg Graduate School of Management at Northwestern University. He is a CPA. He is also a member of several industry organizations, including The International Council of Shopping Centers, National Association of Industrial and Office Properties and the American Institute of Certified Public Accountants.

Emi Adachi is a Senior Vice President and Deputy Director of North American Investment Research. She is an equity owner of the firm. Emi researches property market, macroeconomic, and capital market trends to shape investment strategies and support private equity and debt activity. She has experience in all major property sectors, with extensive knowledge and expertise in the retail and industrial sectors. Emi's responsibilities include identifying target markets, conducting market and property-level research for potential investments, and providing input on underwriting. She manages a team of research professionals and oversees ongoing support for Heitman's portfolio, including asset valuations, business plans, and hold/sell analyses. Additionally, Emi analyzes demographic and technological trends and their impact on real estate investment strategy and portfolio construction. Emi received a BA with honors in Urban Studies from Stanford University. She is a member of the NAIOP Investment Management Forum, Lambda Alpha International Ely Chapter, and Stanford Professionals in Real Estate.

Anne Westbrook is an Executive Vice President in Heitman's Client Service & Marketing group, responsible for developing and maintaining relationships with institutional investors throughout the southeastern US. Prior to joining Heitman, she was a Managing Director of Private Placements with Berkadia Capital Markets, LLC, and focused on capital formation, structuring and sourcing equity for recapitalizations, acquisitions, and programmatic investment vehicles. Anne has led capital raising, strategic planning, and fund development in several senior roles throughout her career; in 2003, she founded and was the Managing Member of Beekman Capital Partners, LLC, which provided equity private placement services to a spectrum of commercial real estate platforms. Anne received a BA in Art History from Case Western Reserve University, and is a FINRA Series 24, 7, and 63 Registered Representative.

Appendix: Performance Notes & Disclaimer

Private Real Estate Equity – North America

Open-End Core Commingled Fund Composite

HEITMAN

1. **Heitman's Private Real Estate Equity – North America Division** (the "**Firm**") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Heitman's Private Real Estate Equity – North America Division has been independently verified for the periods of January 1, 1997 through December 31, 2018. The verification reports are available upon request. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a Firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
2. Heitman Capital Management LLC ("HCM") is an investment advisor registered under the Investment Advisers Act of 1940, as amended, which manages real estate assets in the Firm's Private Real Estate Equity – North America Division. HCM provides investment management services on behalf of pension funds, endowments, foundations, and other U.S. and international institutional clients investing in North American assets. HCM is wholly-owned by Heitman LLC ("Heitman"). Prior to January 5, 2018, the members of Heitman were Old Mutual (HFL) Inc. (wholly owned by Old Mutual plc) and a group of key Heitman employees. On January 5, 2018, a group of key Heitman employees acquired Old Mutual (HFL) Inc.'s outstanding shares of Heitman. The Firm considers client portfolios to be discretionary if the Firm has primary responsibility for major investment decisions such as: portfolio strategy; investment structuring; and acquisition, disposition and valuation of assets. Primary responsibility is inferred if a portion of the Firm's compensation is tied to performance. A complete list and description of the Firm's composites is available upon request.
3. The Firm's Open-End Core Commingled Fund Composite comprises all actual fee-paying discretionary open-end commingled funds managed by HCM since April, 2007 with a primarily core (>= 85%) investment and risk strategy. The core strategy encompasses stabilized investments with low to moderate leverage and seeks to objectively minimize risk through diversification in property type, geographic location, and tenant composition. The composite consists primarily of institutional-grade real estate investments in the four traditional property types (industrial, office, residential and retail) and was created by the Firm and its predecessor Firms beginning in April, 2007. Heitman American Real Estate Trust, L.P. ("**HART**") is the only fund in the Firm's Open-End Core Commingled Fund Composite.
4. The internal dispersion of the Open-End Core Commingled Fund Composite is calculated by using the equal-weighted standard deviation of the gross of fee annual returns of all portfolios that were included in the composite for the entire year. The high and low range of gross of fee returns is also presented as a measure of dispersion for this composite. If five or fewer portfolios are in the composite during the entire year, the dispersion measures are N/A. HART is the only fund in the Firm's Open-End Core Commingled Fund Composite.

5. Altus Group U.S., Inc. (the current "**Appraisal Management Firm**") has been selected by the General Partner to oversee and administer the appraisal process for the Fund. The Appraisal Management Firm selects and supervises third-party appraisal Firms. Except as provided below, each of the Fund's investments is appraised annually, and such appraisal is updated quarterly by the appraiser or the Appraisal Management Firm. Prior to its first appraisal, all acquired investments are valued at cost plus capital expenditures less liabilities, if any (e.g., no appraisal will be required prior to the closing of each new investment) and the new investment joins the annual valuation cycle within 6 to 12 months following the acquisition date. An investment acquired pursuant to the value-added strategy may be valued at the discretion of the General Partner at cost (including subsequent capital expenditures) until the completion of its value-added program (or sooner at the discretion of the General Partner), and thereafter such investment is appraised in accordance with the procedures described above. The percentage of composite assets valued using an external valuation is shown for each annual period. Valuation methodologies include any/all of the following: discounted cash flow analysis, capitalized income approach, analysis of comparable sales, and the valuation of debt. Due to the nature of real estate investments and the lack of active market pricing for similar investments, valuations are based upon subjective unobservable inputs and assumptions.

6. Valuations and performance returns are denominated in US dollars. Returns are presented net of leverage, and are calculated quarterly using time-weighted, investment-level return methodologies which include all non-operating fund-level activity. Composite returns are calculated on an asset-weighted basis using time-weighted return methodologies. The sum of income and appreciation returns may not equal total time-weighted returns due to the geometric linking of quarterly return components. The Internal Rate of Return ("**IRR**") is calculated using monthly cash flows. For the annualized since-inception time-weighted returns and since-inception IRR, the terminal value is based upon the ending market value of net assets of the composite. Additional information regarding policies for valuing portfolios and calculating and presenting returns in compliance with the GIPS standards is available upon request.

7. Gross returns presented reflect transaction and administrative costs but are gross of investment management and incentive fees, which will reduce actual investment returns. The Firm's base management fees are generally charged as a tiered percentage of net assets under management (ranging from 45-110 bps for this open-end commingled fund composite). As of December 31, 2018, HCM's average since inception fee on a leveraged basis was 0.69% for the Open-End Core Commingled Fund Composite.

8. The NCREIF Fund Index Open-End Diversified Core Equity Index ("**NFI-ODCE**") is a leveraged, gross of fee index. Open-End Funds are generally defined as infinite-life vehicles consisting of multiple investors who have the ability to enter or exit the fund on a periodic basis, thereby providing a degree of potential investment liquidity. The NFI-ODCE includes primarily core industrial, office, residential, retail and hotel properties. The NFI-ODCE is used as a benchmark to measure a composite's performance and may not entirely reflect the composite's risk or investment style. Therefore, the NFI-ODCE is presented for illustrative purposes only and is not intended to imply the Firm's past or future performance so you should not expect the performance in your account to be the same as the NFI-ODCE.

9. Returns presented reflect the composite performance of a group of accounts, and therefore individual investor performance may vary. Past performance is no guarantee of future results.

SCHEDULE OF PERFORMANCE RESULTS

Heitman Capital Management

April 1, 2007 through December 31, 2018

Calendar Year Ended	Leveraged Returns					Composite Dispersion	NFI-ODCE Benchmark	Number of Portfolios	Year-End Composite				
	Gross Income	Gross Apprec.	Gross Total	Net Total	Range of Gross Returns				Net Assets (USD Million)	Percent Leveraged	Accepted External Valuation	Percent of Firm Assets	
	Return	Return	Total	Total									
12/31													
2009	6.46%	-19.00%	-13.50%	-13.92%	N/A	N/A	-29.76%	1	\$468	19%	67%	8%	
2010	6.71%	11.02%	18.28%	17.65%	N/A	N/A	16.36%	1	\$794	19%	84%	12%	
2011	6.02%	8.35%	14.73%	14.02%	N/A	N/A	15.99%	1	\$1,277	24%	79%	16%	
2012	6.15%	6.22%	12.64%	11.83%	N/A	N/A	10.94%	1	\$2,051	22%	90%	22%	
2013	5.68%	9.42%	15.49%	14.69%	N/A	N/A	13.94%	1	\$3,435	24%	88%	31%	
2014	5.23%	5.56%	10.99%	10.22%	N/A	N/A	12.50%	1	\$4,477	25%	91%	34%	
2015	4.93%	10.65%	15.96%	15.15%	N/A	N/A	15.02%	1	\$5,865	22%	95%	38%	
2016	4.71%	5.08%	9.97%	9.19%	N/A	N/A	8.77%	1	\$6,732	23%	99%	41%	
2017	4.57%	2.33%	6.97%	6.19%	N/A	N/A	7.62%	1	\$7,345	24%	100%	44%	
2018	4.42%	2.98%	7.51%	6.72%	N/A	N/A	8.35%	1	\$9,227	26%	91%	47%	

Annualized Time-Weighted Returns:

3-Year	4.57%	3.46%	8.14%	7.36%	8.24%
5-Year	4.77%	5.28%	10.23%	9.45%	10.41%
7-Year	5.10%	6.00%	11.31%	10.52%	10.99%
10-Year	5.49%	3.89%	9.53%	8.81%	7.00%
Since Inc. (4/07)	5.32%	1.51%	6.88%	6.19%	5.95%

Annualized Since Inception Internal Rate of Return:

	Gross	Net
	9.52%	8.55%

*Net Assets are from the HART quarterly report

*% of Firm Assets is based on net assets from the quarterly report

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- The recipient's attention is specifically drawn to the risk factors identified by the Sponsor relating to the Opportunity as set out in the Disclosure Document or any other documents provided to the recipient. The Sponsor also advises that any potential investment opportunities described herein are speculative, involve a degree of risk, and there is no guarantee of performance or a return of any capital with respect to any investment.
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Retirement Board

Meeting Date: 09/17/2020

Re: Consent Agenda 9-17-2020

Submitted For: Johnna Morris, Finance Director, Finance Department

Information

SUBJECT:

CONSENT AGENDA

Attachments

Consent Agenda - 9-17-20

Form Review

Form Started By: Queen Thompkins

Final Approval Date: 09/04/2020

Started On: 09/04/2020 12:09 PM

**CONSENT AGENDA
REFUND OF MEMBER CONTRIBUTIONS
SEPTEMBER 17, 2020
RETIREMENT BOARD MEETING**

<u>CITY</u>	<u>AGENCY</u>	<u>PERIOD</u>	<u>DATE OF TERMINATION</u>	<u>DATE OF REFUND</u>	<u>TOTAL AMOUNT OF REFUND</u>	<u>TAX DEBIT</u>	<u>RE-PAYMENT</u>	<u>NET AMOUNT</u>	<u>CHECK NUMBER</u>
CAROLINE A. VALENTIN	CITY	11	10/19/2018	8/14/2020	12,459.83			12,459.83	277750

Sub-Total: 12,459.83 - - 12,459.83

POLICE

EDWARD BLACK	POLICE	11	4/30/2020	8/14/2020	6,749.29	1,349.86		5,399.43	277631

Sub-Total: 6,749.29 1,349.86 - 5,399.43

U.A.

								-	
								-	
								-	

Sub-Total: - - - -

GRAND TOTAL: \$ 19,209.12 \$ 1,349.86 \$ - \$ 17,859.26

Retirement Board

Meeting Date: 09/17/2020

Re: CYEPN Newsletters 8-27-2020

Submitted For: Johnna Morris, Finance Director, Finance Department

Information

SUBJECT:

MISCELLANEOUS

Attachments

CYPEN Newsletter 08-20-2020

CYPEN Newsletter 08-27-2020

Form Review

Form Started By: Queen Thompkins

Started On: 09/05/2020 08:40 AM

Final Approval Date: 09/05/2020



CYPEN & CYPEN NEWSLETTER for August 20, 2020

Copyright, 1996-2020, all rights reserved
Stephen H. Cypen, Esq., Founding Editor
Robert D. Klausner, Esq., Senior Editor

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

1. AMERICA'S PUBLIC PENSION CHALLENGES CAN BE FIXED -CANADA IS PROOF:

There are about 5,300 public pension funds in the U.S. today, overseeing some \$4 trillion in assets. The 25 largest account for more than half the total. The rest of the market is highly fragmented, with thousands of public pension portfolios managed independently and locally. Fragmentation results in less efficient portfolios and higher operating costs, potentially leading to lower net returns and ultimately a greater funding burden on taxpayers. Especially given the impact of Covid-19 on public finances, there must be a better way.

In a comparative study of the largest U.S. and Canadian public pension plans, we explored pension reform in Canada in the late 1980s and 1990s. Prior to those reforms, Canadian policymakers worried about the integrity of the country's public pension system. Decades

later, the system is considered among the best in the world. Our data show that on almost all metrics the Canadians outperform their U.S. peers, so the Canadian experience offers some useful lessons for reforming the American public pension system.

One of the key lessons is that scale matters, and there are ways to achieve scale even for smaller pension funds through the pooling of assets. We call this the consortium model of pension system design.

Larger pension pools allow for staffing investment teams that exceed critical mass and for designing and developing portfolios that are diversified across asset classes and markets. Significant market footprint also helps pension managers effectively engage with asset managers to obtain access to co-investments and reduced fees for larger fund commitments.

On the other hand, we know that scale tends to dissipate at extreme size. Some institutional investors are so large that they cannot make allocations to higher-performing strategies that move the needle in the portfolio, while concentrated positions might move prices against them. Norway's sovereign wealth fund and Japan's government pension fund are well known examples.

But there is a sweet spot – perhaps between \$50 billion and \$250 billion in AUM. In the U.S., about twenty public pension funds cross the lower threshold; in Canada, a handful do. The California Public Employees' Retirement System and Canada Pension Plan exceed the upper bound.

Another feature of the Canadian public pension system is in-house investment management. This originated in Québec and became prevalent in Ontario in the 1990s. Over the years, the Toronto-based pension funds have become among the most sophisticated in the world. When Canada's smaller provinces and its federal pension system underwent reform, they adopted key lessons from Ontario. Along the way, they developed the consortium model, one that also prevails in some European markets.

Formed as units of Canadian federal and provincial finance departments, investment organizations managing combined portfolios of pension plans and other government assets came into being. These include the British Columbia Investment Management Corporation, Public Sector Pension Investment Board, and Alberta Investment Management Corporation. More recently, the Investment Management Corporation of Ontario was formed for the purpose of serving smaller Ontario pension plans, while CAAT Pension evolved from serving Ontario colleges to serve smaller pension funds across the country. Preceding all of these was Caisse de dépôt et placement du Québec. Other than CAAT, each is a public sector

entity operating at arms-length from government and overseen by representatives of its largest clients. The model continues to evolve and has recently been considered in Manitoba.

Might the consortium model be adopted in the United States? To some degree, it already has been. The Massachusetts Pension Reserves Investment Management Board is an investment office for the entire Commonwealth. Pennsylvania and Illinois are considering similar approaches.

We believe the consortium model is well worth wider consideration. There are hundreds of mid-size and thousands of small U.S. public pension plans. Investing the portfolios of each of these independently is inefficient.

How might such entities be structured? States – or groups of smaller states – could establish investment units to manage the portfolios of consortia of pension plans. These would operate at arms-length from government, while being held to fiduciary standards set by their clients. Smaller pension funds might pool assets and establish mutually owned cooperatives to invest on their behalf. They might even collectively engage investment management firms using the scale of their aggregate AUM. Full customization would be traded for greater portfolio diversification, access to otherwise inaccessible strategies, and better control over expenses.

State and local governments are searching for innovative ideas to fortify their finances given the impact of Covid-19. The consortium model is attractive because it enhances market efficiency. The Canadian examples provide good case studies. Clive Lipshitz and Ingo Walter, Institutional Investor, www.institutionalinvestor.com, August 14, 2020.

2. 'THE STATUS OF LOCAL GOVERNMENT PENSION PLANS IN THE MIDST OF COVID-19':

The update's key findings are:

- Despite the recent market recovery, during fiscal year 2020, local government pension plans will see virtually no change in their average funded ratio.
- And, going forward, the strains on government finances due to the recession could make it harder for localities to pay their required pension contributions.
- But projections show that local plans are quite sustainable on a cash-flow basis. Most can pay benefits indefinitely at their current contribution levels.
- The only exceptions are the very worst-funded plans, which face the real risk of exhausting their assets.

This full report is [available here](#). Jean-Pierre Aubry and Kevin Wandrei, Center for Retirement

Research at Boston College, <https://crr.bc.edu/>, August 2020.

3. PENSION PLAN'S LONG GAME OF HIDE, SEEK:

Pennsylvania taxpayers saddled with state school employees' pension costs reasonably might wonder why a pension system employee stayed at the ritzy Beverly Hills Hotel while on at least one business trip to Los Angeles.

Even more so, they might wonder why they can't find out what they paid for it. Each of the state's 500 school districts must make an annual pension contribution equivalent to 34% of its payroll – a preposterous burden that would crash any private business.

Taxpayers also cover the costs of state contributions to the school and state employees' pensions, for which the state government pays more than \$4 billion a year.

Pennsylvania Capital Star, an online journalism organization that covers state government, reported in December that a staffer for the Pennsylvania Public School Employees Retirement System had made seven annual trips to Los Angeles to meet with representatives of Platinum Equity, with which the system had invested more than \$1 billion over a decade.

As a public agency, PSERS must disclose travel costs. Yet it reported less than \$1,400 in total expenses for all seven trips, which is less than the airfare alone and equivalent to about two days' lodging at the Beverly Hills Hotel.

Reporters discovered that the staffer had stayed at the movie stars' hangout only because an expense report showed an \$8.60 Uber ride from the hotel to a meeting elsewhere.

The reporters discovered that the agency allows its vendors – financial industry firms – to book travel for agency staff. Then, the travel costs are “baked” into the contracts with those firms. Public money covers the travel, but the actual costs are buried in the contracts.

After the Pennsylvania Capital Star report, two PSERS board members – Democratic state Treasurer Joe Torsella and Republican Rep. Frank Ryan of Lebanon County – asked for an audit of travel expenses and moved to reform the process. The audit is incomplete but on Aug. 7, the PSERS board approved reforms requiring the agency to book and directly pay for staff travel.

Several board members huffed that the issue created a false impression of corruption at the agency. No, it's just obfuscation at public offense, something to keep in mind when you receive your school property tax bill. The Scranton *Times-Tribune*, www.thetimes-

[tribune.com](https://www.tribune.com), Aug 17, 2020.

4. IRS AND PBGC GUIDANCE ON SINGLE-EMPLOYER DEFINED BENEFIT FUNDING RELIEF UNDER THE CARES ACT:

On July 31, the IRS issued Notice 2020-61 (the “Notice”) to provide guidance related to the special funding rules applicable to single-employer defined benefit pension plans under the Coronavirus Aid, Relief, and Economic Security (the “[CARES Act](#)”). The Pension Benefit Guaranty Corporation (“PBGC”) previously posted on its website answers to frequently asked questions regarding the impact of the CARES Act on certain reportable event requirements, premium filings for single-employer defined benefit pension plans, plan terminations, and PBGC investigations. Highlights of both Agencies’ guidance are summarized below. We expect that plan sponsors who opt to delay contributions will need to address these issues with their actuaries very soon.

A. IRS Notice 2020-61

Section 3608 of the CARES Act delayed the funding deadlines for 2020. Any contributions otherwise due in 2020 are instead due on January 1, 2021 (even though it is a legal holiday). For a calendar-year plan, the changes would be as follows:

Contribution	Original Deadline	New Deadline
1st Quarterly for 2020 Plan Year	April 15, 2020	January 1, 2021
2 nd Quarterly for 2020 Plan Year	July 15, 2020	January 1, 2021
Final Contribution for 2019 Plan Year	September 15, 2020	January 1, 2021
3 rd Quarterly for 2020 Plan Year	October 15, 2020	January 1, 2021

For the period between the original deadline and the new deadline, the CARES Act provided that interest would accrue at the plan’s effective rate of interest for the plan year in which the payment is made. In addition, for plan years that include any part of the 2020 calendar year, the CARES Act allowed plan sponsors to elect to treat the plan’s AFTAP as being equal to the percentage from the last plan year ending before January 1, 2020. The Notice provides additional guidance related to this relief, including the following major takeaways.

- The CARES Act delayed the due dates for certain defined benefit plan contributions but did not delay any Form 5500 filing deadlines. If a plan sponsor makes a contribution after the applicable Form 5500 deadline on account of the prior year, the

original filing will not reflect that contribution and the sponsor must subsequently file an amended Form 5500.

- Plan sponsors can apply the extended contribution deadlines under the CARES Act not only to minimum required contributions, but also to contributions above the minimum funding requirements. Thus, certain contributions in excess of the minimum required contribution may be credited to an earlier plan year than would normally be permitted.
- The CARES Act permits plan sponsors to elect to use the Adjusted Funding Target Attainment Percentage (“AFTAP”) from the last plan year ending before January 1, 2020 for any plan year that includes calendar year 2020. However, any presumed AFTAPs for subsequent years may not be based on such AFTAPs but must instead be based on actual certifications from the enrolled actuary.
- An election to use an AFTAP from a prior year in place of the AFTAP for a plan year that includes calendar year 2020 must be made in writing to the plan’s enrolled actuary and plan administrator. Elections made using a different procedure will be considered valid, provided the plan sponsor notifies the plan actuary and administrator in writing by September 30, 2020.

Failure to Meet January 1, 2021 Contribution Deadline

If the January 1, 2021 extended deadline for a contribution is not satisfied, the penalties will apply as of January 1, 2021. If a sponsor misses a final contribution the sponsor will be subject to excise taxes for the unpaid minimum required contribution originally due September 15, 2020 for calendar-year plans. While missed quarterly contributions do not result in excise taxes, an additional 5% of interest will be added to the plan’s effective interest rate for the period after January 1, 2021.

Form 5500 Guidance

The Notice also contains guidance on how plans should complete the Schedule SB of the Form 5500. To the extent the Notice is inconsistent with the Schedule SB instructions, the Notice supersedes them.

- *Contribution Reporting:* If a sponsor takes advantage of the extended contribution deadline offered by the CARES Act, some contributions may be made timely, but after the date the Form 5500 is due. If a sponsor wishes to designate contributions for a plan year after the Form 5500 for that plan year has been filed, the sponsor must submit an amended Schedule SB to reflect the additional contributions.

Example: The sponsor of Plan X, a calendar year plan, makes a contribution of \$100,000 on December 1, 2020, and wishes to designate that contribution for the 2019 plan year. Due to

the CARES Act, this contribution is timely because it is made before January 1, 2021. However, the deadline for the 2019 Form 5500 (October 15, 2020) had already passed. Because 2019 contributions must be designated on the appropriate Form 5500, an amended Schedule SB must be filed after the plan sponsor makes the \$100,000 contribution on December 1, 2020. Without the amended Schedule SB, the contribution would be designated to the 2020 plan year and listed on the Form 5500 for 2020.

- *Contribution Delay:* If a sponsor makes a contribution after the original deadline (without regard to the CARES Act), but on or before the extended due date under the CARES Act, the plan's actuary must attach a schedule for Line 19 of the Schedule SB. This schedule shows the dates and amounts of individual contributions, the effective interest rate that applies to those contributions (including any potential 5% increase for late quarterly contributions), and the discounted contribution for the plan year. This schedule applies to both quarterly contribution requirements and annual funding requirements and must be included any time a contribution is deemed to be timely under the CARES Act, even if an amended Form 5500 is not required.
- *AFTAP Carryover:* If the sponsor has elected to use the prior year's AFTAP as provided by the CARES Act relief, the plan's actuary must attach a statement related to Line 15 of the Schedule SB. This statement identifies that the sponsor has made the election to use the prior year's AFTAP, the date of that election, and the AFTAP that is applied for the plan year pursuant to that election.

It is important to note that although contributions can continue to be made until January 1, 2021, the PBGC guidance (discussed below) takes the position that a contribution must be made before the premium due date for it to be considered when calculating the variable rate premium. This means that, for calendar year plans, any contributions made after the October 15, 2020 premium due date will *not* affect calculation of the 2020 variable-rate premium amount.

AFTAP Guidance

A plan's AFTAP is the key determinant of whether and which benefit restrictions under Code section 436 apply to a defined benefit plan. As noted above, a plan sponsor can elect to use the AFTAP for the last plan year ending before January 1, 2020 in place of the actual AFTAP for any plan year that includes the 2020 calendar year. To make this election, the plan sponsor must provide written notification to the plan's actuary and the plan administrator using the same procedure for making an election with regard to funding balances. To the extent a sponsor's AFTAP election did not originally follow this procedure, the sponsor has until September 30, 2020 to meet these written notification requirements.

For plans that do not use a calendar year for a plan year, the Notice confirms that such plans can apply the AFTAP relief to both the plan year ending in 2020 and the plan year beginning in 2020. For example, if a plan has a July 1 to June 30 plan year, the plan sponsor can choose to use the AFTAP certified for the July 1, 2018 to June 30, 2019 plan year for the plan year beginning July 1, 2019. The plan sponsor may also separately elect to use that AFTAP for the plan year that begins on July 1, 2020.

If a plan sponsor elects to use the deemed AFTAP under the CARES Act, the election is generally treated the same as a certified AFTAP. In most cases, even if the plan sponsor uses the deemed AFTAP, the plan actuary should still prepare a formal AFTAP certification for the year, as any presumed AFTAPs in the subsequent year must be based on an actual certification, not an elected AFTAP. However, if a plan does not use a calendar year plan year, and will use the relief in two consecutive years, then there is no need to prepare the AFTAP certification for the earlier year.

Technical Guidance

A number of highly technical issues covered in the Notice relate to the mechanics of interest adjustments, funding credits, and the application of a deemed AFTAP on the restrictions affecting plan amendments and unpredictable contingent event benefits. We do not cover them here but are glad to assist on request.

B. PBGC Guidance

The PBGC guidance was posted on the agency's Covid-19 Resources webpage on July 20. Highlights of the guidance follow.

2020 Contributions

When a sponsor misses a minimum funding contribution, it is required to notify the PBGC within 30 days (unless the accumulated missed contributions exceed \$1 million, in which case the sponsor must notify PBGC within 10 days). Additionally, when the missed contributions (plus interest) exceed \$1 million, a lien on the sponsor and all controlled group members arises in favor of the plan and is enforceable by PBGC.

Under the CARES Act, all required contributions--including quarterly contributions--that would otherwise be due in calendar year 2020 are now due on January 1, 2021. PBGC clarified that unpaid contributions that would be due in 2020 but for the CARES Act are not considered "missed contributions" for the purpose of PBGC's reportable event requirements as long as the contributions are made by January 1, 2021. In other words, there is no PBGC reporting requirement with respect to these contributions as long as they are made by the due date under the CARES Act.

By extension, given that 2020 contributions are not “missed” until January 1, 2021, the statutory lien resulting from missed contributions of over \$1 million should also not arise until January 1, 2021, and only then if the contributions are not made on that date.

If the sponsor does not make all required contributions by January 1, 2021, the missed contributions will need to be reported to PBGC. As always, if the accumulated value of the missed contributions (plus interest) exceeds \$1 million, the sponsor must report the missed contribution(s) on a Form 200, which must be submitted by January 11, 2021. If the accumulated value of the missed contributions is \$1 million or less, reporting is made within 30 days of January 1, 2021 via a Form 10. Because January 31 falls on a Sunday in 2021, the deadline to submit the Form 10 will be February 1, 2021.

Premiums

Variable rate premiums are due to PBGC by a plan with “unfunded vested benefits,” meaning the value of the vested benefit liabilities exceeds the value of the plan assets. The plan’s liabilities for this purpose are calculated using specific assumptions that often result in a larger liability amount than what is calculated for ongoing plans. Plans are required to pay a variable rate premium equal to a dollar amount specified for that year under PBGC regulations for each \$1,000 of unfunded vested benefits.

While 2019 plan year contributions typically would be made by September 15, 2020 (for calendar year plans), sponsors taking advantage of CARES Act funding relief need not make those contributions prior to the due date of the premium filing on October 15, 2020 (for calendar year plans). PBGC has clarified that contributions made after the premium due date may not be included in the calculation of a plan’s unfunded vested benefits for premium purposes. Therefore, sponsors who delay payment of contributions until January 1, 2021 may face higher variable rate premiums.

Plan Terminations and Early Warning Program

PBGC continues to process distress termination applications. PBGC reiterated that sponsors should schedule a pre-filing consultation with PBGC. PBGC is likely pushing for these meetings to ensure that sponsors are aware of the distress termination requirements rather than filing an application that may not be appropriate.

PBGC will also continue to initiate involuntary terminations where appropriate, which it has the authority to do in certain circumstances. Common situations where PBGC may terminate a plan include where the plan will be unable to pay benefits when due (such as when the sponsor goes out of business) or where PBGC determines that its “long-run loss” with respect

to a plan is reasonably expected to increase unreasonably if the plan is not terminated.

Similarly, PBGC will not suspend investigations under the “Early Warning Program” under which PBGC analyzes corporation transaction or events that could increase PBGC’s risk as the pension insurer. Indeed, PBGC may well initiate more involuntary terminations and/or Early Warning Program investigations due to the financial distress that many sponsors are currently experiencing.

When a pension plan does terminate, either in an involuntary or distress termination, the sponsor and controlled group members are liable to PBGC for the underfunding of the pension plan, as well as any unpaid contributions and premiums. PBGC suggests that it will not suspend collection of termination liabilities in 2020 but will work with plan sponsors to resolve such liabilities taking into account the sponsor’s ability to pay.

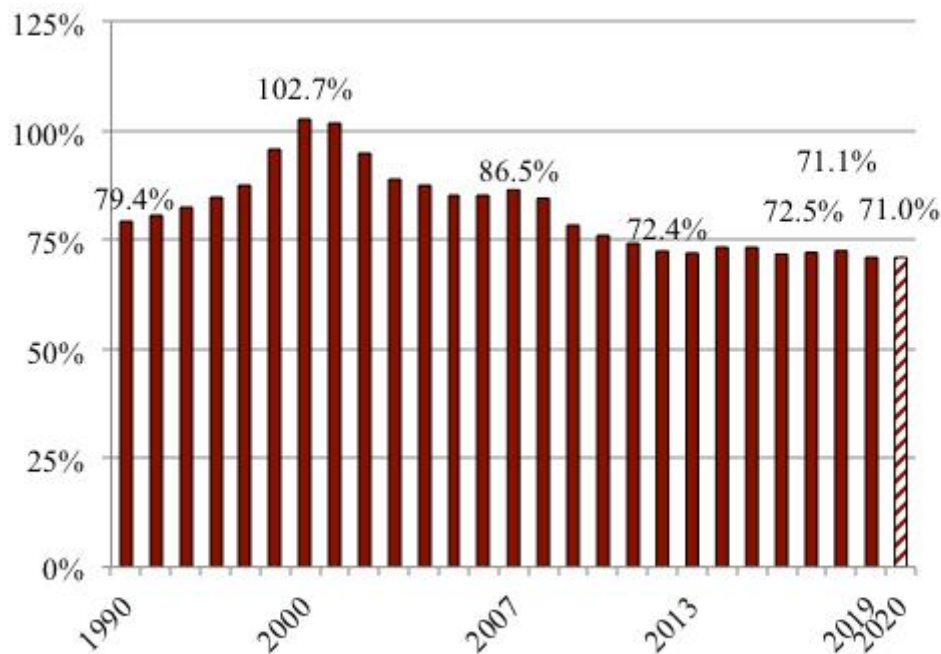
C. Next Steps

Plan sponsors should consult with their plan actuaries and legal/tax advisors soon to be sure they understand the implications of delaying plan contributions and the IRS and PBGC guidance and take the necessary actions in a timely manner. As noted above, the decisions to be made have important tax and financial implications. And some decisions – whether to make contributions by the normal 8½-month “grace period” to claim a tax deduction for the prior year, elect a revised AFTAP determination, etc. – need to be made quite soon. Groom Law Group, www.groom.com, August 13, 2020.

5. PAYING OFF UNFUNDED PENSION LIABILITIES WILL BE A LOW PRIORITY AFTER COVID-19:

A [recent update](#) of state and local pension plans showed that -- even after nearly a decade of stock market gains -- plans were only about 70% funded in fiscal year 2020. That funded ratio discounts future benefits by the plan’s assumed rate of return (7.2%); the ratio would be lower with a lower discount rate (see figure 1).

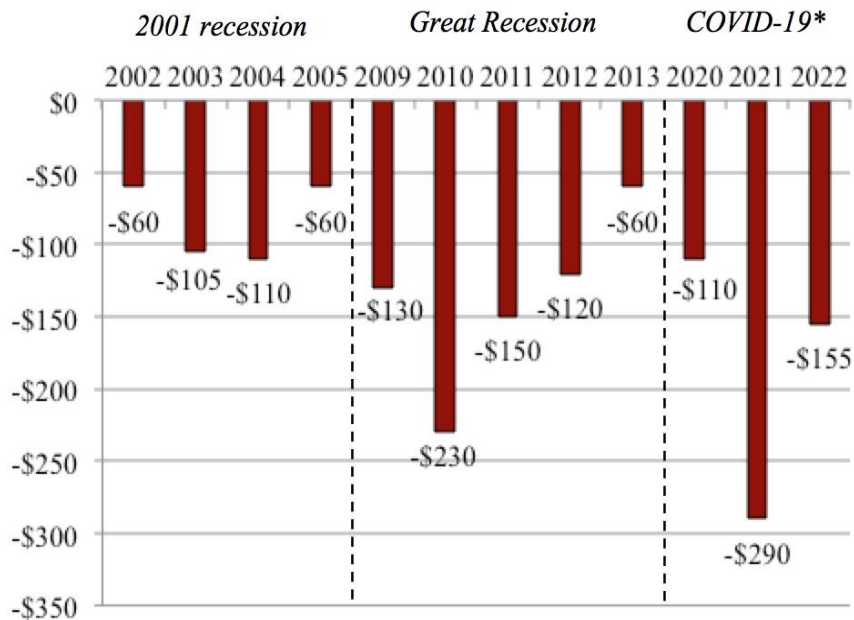
Figure 1. *Funded Ratios for State and Local Pension Plans, FY 1990-2020*



Source: Authors' estimates based on various plan financial reports; and Public Plans Database (2020).

At the same time, experts from the Center on Budget and Policy Priorities (CBPP) predict that state budget shortfalls from the economic impact of COVID-19 will total a [cumulative \\$555 billion](#) over the period 2020-22. This figure is for states only and does not reflect revenue shortfalls at the local level. The CBPP reports that the projected gap for fiscal year 2021 alone (which started July 1 for most jurisdictions) is much larger than for any year during the Great Recession (see figure 2). The impact on governments has already been dramatic. In the last four months, states and localities have furloughed or laid off 1.5 million workers -- double the number during the entire Great Recession.

Figure 2. Total State Budget Shortfall in Each Fiscal Year, in Billions of 2020 Dollars



Source: Figures for 2020-22 are projections from a July 7 report by the Center on Budget and Policy Priorities (“States Continue to Face Large Shortfalls Due to COVID-19 Effects.”)

In the next couple of years, states -- which must balance their budgets every year -- will face the tradeoff of deep cuts in education and health care and further layoffs, on the one hand, and funding their pensions on the other. Most observers would probably agree that pension funding could be postponed.

More fundamentally, the standard recommendation that sponsors need to eliminate all their unfunded liability over 30 years is increasingly being called into question.

For years, we have argued that liabilities created before plans started to pre-fund their pension benefits should be taken off the backs of today’s workers and financed by outside sources as they come due (and coupled with more conservative funding methods -- such as a lower discount rate and shorter amortization period -- for liabilities created afterward). More recently, other researchers have made the case for stabilizing the ratio of unfunded liability to state GDP. Such a goal would also stabilize the ratio of debt service to output, requiring no further increases in taxes or cuts in outlays to maintain pensions.

These more moderate funding approaches seem sensible in the best of times. But they seem particularly helpful given the history of the 21st century, where the plans have been swamped

with the retirement of baby boomers (a phenomenon that should end by 2030), two major market corrections in 2000-01 and 2007-09, and three recessions that depleted the revenues of state and local governments. In this context, blindly accumulating assets equal to 100% of the present value of promised benefits really doesn't seem like a sensible goal. Alicia H. Munnell, MarketWatch, www.marketwatch.com, August 10, 2020.

6. IRS PROVIDES GUIDANCE ON 2020 WAIVER OF RETIREMENT PLAN REQUIRED MINIMUM DISTRIBUTIONS:

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a relief package in response to the COVID-19 pandemic which became law in March 2020, allows individuals to avoid taking a required minimum distribution (RMD) from their retirement plans or IRAs for 2020. This relief applies to employer-sponsored defined contribution plans as well as Individual Retirement Accounts (IRA) but does not apply to employer-sponsored defined benefit plans. If not paid in 2019, this temporary waiver of the RMD requirement also applies to an RMD first required in 2020 because the individual left employment or reached age 70½ in 2019 and would otherwise have had to take their first RMD by April 1, 2020. In addition, the five-year period by which certain account balances must be distributed after the death of the participant will be extended by one year such that 2020 will be disregarded for participants who died in 2015 through 2019, but not for participants who die in 2020.

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) changed the date by which RMDs must generally begin ("required beginning date"). It was previously April 1 following the year in which an individual attains age 70 ½. It has changed to April 1 following the year in which an individual attains age 72, for individuals who attain age 70 ½ after December 31, 2019. A retirement plan participant who is not a 5% owner of the employer may delay receipt of RMDs until April 1 following the year in which the employee retires. A plan that currently provides that RMDs are based on age 70 ½ (rather than incorporating a statutory reference to the RMD requirement which is rare) will have to be amended if it wishes to defer the RMDs until after age 72 as described above. The rules for defined contribution plan distributions to non-spouse beneficiaries after death were also changed to generally require distribution within 10 years, no longer allowing distributions over life expectancy except for distributions to "eligible designated beneficiaries" which include a spouse, children under the age of majority, certain disabled or chronically ill individuals or an individual who is not more than 10 years younger than the participant. These new non-spouse beneficiary rules will generally require a plan amendment unless the plan currently incorporates the statute by reference.

In June 2020, the IRS issued Notice 2020-51 providing guidance on how to interpret and administer the 2020 RMD waiver provisions in the CARES Act and the required beginning

date provision in the SECURE Act. The following are highlights of the recent IRS Notice:

Is a retirement plan amendment required to suspend payment of RMDs?

An employer retirement plan must be amended if the employer wants to allow the suspension of 2020 RMDs. The amendment is not required to be completed until the last day of the 2022 plan year (2024 plan year for governmental plans). An IRA does not have to be amended to reflect the waiver of the RMD.

Sample Plan Amendment

The IRS Notice contains a sample plan amendment that can be adopted by an employer with two basic options. The first option provides that the 2020 RMD *will be distributed* unless a plan participant elects otherwise. The second option provides that the 2020 RMD *will not be distributed* unless a plan participant elects otherwise. An employer cannot amend the plan to suspend payment of 2020 RMDs without giving the participants the right to elect otherwise. Any amendment must reflect the operations of the plan beginning with the effective date of the amendment. An employer is not required to amend a retirement plan to suspend payment of the 2020 RMDs, though participants would still be allowed to rollover the 2020 RMD back to the plan if the plan permits rollovers. The sample plan amendment also allows four different options, one being a default option, with respect to the availability of direct rollover choices for distributions in 2020 that can expand the types of distributions that are considered “eligible rollover distributions”. If the default is chosen, a direct rollover is offered only for distributions that would be eligible rollover distributions in the absence of the CARES Act provisions.

Tax Withholding

Even though participants who receive an RMD from a retirement plan or IRA in 2020 may roll this amount back into a retirement plan or IRA, the distribution is not technically considered an “eligible rollover distribution” so the distribution is subject to an optional 10% federal income tax withholding rate and not the 20% mandatory withholding rate that applies to eligible rollover distributions.

Rollover allowed of any 2020 RMD previously paid (and certain 2021 distributions)

Individuals who receive an RMD in 2020 or one or more payments that include a 2020 RMD that would be treated as part of a series of substantially equal periodic payments may rollover such distribution to an employer’s retirement plan (including to the same retirement plan assuming the plan permits rollovers) or to an IRA. The deadline to roll over any such distribution, which normally is 60 days from receipt, will not be before August 31, 2020 even if the distribution was made as early as January 2020. If a distribution by an IRA is rolled over to the distributing IRA by August 31, 2020, such rollover will not be treated as a rollover for purposes of the one rollover per 12-month period rule and the restriction on rollovers for non-

spousal beneficiaries. A participant can also rollover a subsequent plan distribution made in 2021 if their RMD “required beginning date” was April 1, 2021 and they had previously received a distribution of their RMD for 2021. A rollover of a distribution made to an individual in 2020 who attained age 70 ½ in 2020 and whose required beginning date is now based on age 72 (assuming the plan is so amended under the SECURE Act) is also allowed.

Five-year/life expectancy rule election extension

The deadline for a beneficiary making an election for the use of either the five-year rule or the life expectancy rule in determining an RMD is typically the December 31 of the year following the calendar year of the participant’s death. This deadline is extended one year to December 31, 2021 if the deadline is otherwise December 31, 2020. There is no similar extension if death occurs in 2020.

Deadline for direct rollover for a non-spouse designated beneficiary

A non-spouse designated beneficiary of a participant who dies in 2019 has until December 31, 2021 (rather than 2020 as would otherwise be the case) to make a direct rollover from the participant’s retirement plan to an IRA and use the life expectancy rule rather than the five-year rule for determining the RMD.

These rules and options are complex and employers who sponsor retirement plans will need to keep track of how they administer these issues, especially if plan amendments are not made until 2022 (or 2024 for governmental plans). Michael T. Bindner, Frost Brown Todd Attorneys, <https://frostbrowntodd.com>, August 13, 2020.

7. ANNUITY PURCHASE UPDATE; AUGUST 2020 INTEREST RATES:

Executive Summary: Through long established relationships with insurers in the PRT marketplace, October Three collects annuity purchase rates for Duration 7 years and Duration 15 years on a monthly basis. We have constructed two hypothetical annuity plans which have been valued using the latest mortality tables.

- Year-to-Date annuity purchase prices have been volatile and are currently higher for both Annuity Plan 1 and Annuity Plan 2. [Click here to view plans.](#)
- Annuity purchase prices relative to GAAP PBO liabilities have also been volatile but are currently in line with historical expectations.
- This past month annuity purchase prices rose 0.29% for Annuity Plan 1 and 3.69% for Annuity Plan 2. Relative to GAAP PBOs however, purchase prices lowered.
- Connecting with an annuity search firm early on is key for plan sponsors to take advantage of favorable fluctuations in market pricing.

August 2020 Rates		
Duration:	7 Years	15 Years
Range Rate:	1.14% - 1.97%	1.39% - 2.16%
Average Rate:	1.46%	1.66%
Average Rate Past Month Increase/Decrease:	-0.04%	-0.21%
Average Rate YTD Increase/Decrease:	-0.81%	-0.83%

August 2020 Plan Tracker		
Plan:	Plan 1	Plan 2
Annuity Purchase Price - YTD:	+5.95%	+14.66%
Annuity Purchase Price - Past Month:	+0.29%	+3.69%
% Annuity Purchase Price Exceeds GAAP PBO:	2.89%	10.66%
% Annuity Purchase Price Exceeds GAAP PBO - Past Month:	-2.05%	-2.85%

Full update is available [here](#). OctoberThree, www.octoberthree.com, August 13, 2020.

8. WHAT TO DO WITH YOUR PENSION FUND WHEN YOU RETIRE:

Figuring out what to do with your company [pension](#) when you retire can be a bit more complicated than making a plan for your employer-sponsored [401\(k\) plan](#). With a company or government pension plan, your choices can range from many to none. "Every pension plan is a little bit different from the other," says Christine Russell, a senior manager of retirement and annuities at TD Ameritrade. "When you can get the money out and how is almost completely up to the plan and how it is structured."

What Is a Pension Fund?

A pension, or defined benefit plan, is a retirement fund in which the company makes contributions during the work life of the employee. Upon retirement, employees receive a guaranteed payment that is typically based on a percentage of their average salary and the number of years with the company.

While pensions remain the norm for state and federal employees, the proportion of Americans in the private sector covered by pensions has dwindled to about 13%, according to Bureau of Labor Statistics data. Companies began moving their workers into [401\(k\)s](#) in the 1980s as they found traditional pensions too expensive, and new employers largely decided not to set up traditional pension plans.

Federal Government Pensions

Federal government employees often have pensions, but they generally don't have the option of taking a lump sum. In fact, when it comes to their pensions, they have very little to decide, says Caine Crawford, a retirement advisor based in Denver who specializes in federal employees. "You have the option to take a deferred pension if you (retire) early, prior to 62 or full retirement age," Crawford says. "Otherwise it's cut in stone. All you can decide is when to retire."

Private Sector Pensions

Workers in the private sector generally have more options. Russell says the first thing you should do is talk to your human resources department or the administrator in charge of the plan. Get a summary plan description to see the rules about accessing your money. You need to determine when and how you are eligible for payments and if you have the option to take a lump sum distribution and roll your plan over into an [individual retirement account](#). "In the 401(k) world you always have the option of rolling over into an IRA," Russell says. "In a pension you may not have the option. You may be only able to get it out as a monthly benefit."

Most private sector pensions are guaranteed by the Pension Benefit Guaranty Corporation. If your company goes out of business or the plan runs out of money, the PBGC pays out promised benefits up to annual limits. Bryan Bibbo, lead advisor at The JL Smith Group in Avon, Ohio, says you should request a pension plan annual report to check on the financial health of the pension. If the plan is underfunded, check to see if the PBGC covers the amount you expect to receive in retirement.

Monthly Check or Lump Sum Payment

To decide which type of payment is a better option, you need to evaluate your personal situation. "Typically, your options are you can take a lump sum distribution, or you can take payments over your lifetime," says Rich Ramassini, director of strategy and sales performance at PNC Investments. "You can take your payment over a joint life period (both spouses) or you can take your payment for a defined period of time."

A lump sum gives you immediate access to a large amount of cash, but you become responsible for making that money last for the rest of your life. "Individuals are overwhelmed with do-it-yourself retirement," Russell says. "This is one of the few areas where you get guaranteed payments for life."

The monthly payment option can be especially beneficial to retirees who expect to live a long life, and you don't have to worry about picking investments and potential losses. "You can

request a lump sum, but you have to be careful," Ramassini says. "The (monthly) distribution is for as long as you live."

Single Life Benefit or Survivor Benefit Option

If you select the monthly payment, your next choice will be whether you want to receive a single life benefit or a joint and survivor benefit. The first choice will result in a higher monthly payment, but when the recipient dies, the benefit stops. If the pensioner dies a month after the pension begins, the payments will end. The spouse must sign a consent form for the single life benefit option, due to a rule mandated by the Retirement Equity Act of 1984 to ensure that spouses are aware that they receive no benefit if the pensioner dies.

The joint life option will result in a lower monthly payment, but if the pensioner dies, the spouse will still receive a lifetime benefit. "You can, in many plans, buy a richer benefit for your spouse," Russell says. "You might be able to use some of your pension benefits to give your spouse, instead of 50%, maybe 75% or 100% of what you get. It will be in the summary plan report. You can see if it makes sense to get a richer benefit for your spouse."

Crawford says federal employees have the option of providing a [surviving spouse](#) either 25% or 50% of their pension. Their monthly benefit will be reduced by whichever amount they choose.

Period Certain Option

Some pensions allow participants to take a higher payout and receive the pension for a certain period of time, such as 10, 15 or 20 years. With this option, even if the pensioner dies, the checks will continue for his or her spouse or heirs for the remainder of the period. "Every option has advantages, disadvantages and strings attached," says Kristian Finrock, founder and financial advisor with Retirement Income Strategies in Madison, Wisconsin. "Look at the impact of losing a spouse. We usually advise the 100% continuation option if they are married."

Those with a [long life expectancy](#) have the most to gain by setting up monthly payments for life. "If the probability that you are going to live a long life is high, (the annuity) could be the benefit that gives you the most income," Ramassini says. "If your health is not great and you won't have a long life span, you may want the lump sum or joint life." U.S. News, <https://money.usnews.com>, August 14, 2020.

9. A DIVORCE COULD HAVE A BIG IMPACT ON YOUR RETIREMENT SAVINGS:

Divorce can affect your life in many ways. Unfortunately, one big way it could have an impact is by making it harder to retire.

Divorce can affect your retirement security because the process itself can be costly and you may drain your savings to pay for legal support. If you lose a portion of your retirement savings to your spouse or your household income goes down after divorce and you find it difficult to continue saving, that could also reduce the size of your nest egg.

But just how much can ending a marriage affect your later years? Data from the [National Institute for Retirement Security](#) (NIRS) reveals that the consequences can be dire if you don't act.

Here's the impact of divorce on your retirement account balance

According to NIRS, divorced people have less money in their individual retirement accounts than the married do. While the mean value of independently owned defined contribution accounts is \$84,874 for married men and \$50,126 for married women, those numbers drop to \$58,951 for a divorced man and \$38,613 for a divorced woman.

Married people also, unsurprisingly, have more retirement money for their households. For example, the mean value of household defined contribution accounts is \$136,055 for married men, while it's the same \$58,951 for the divorced.

With such a discrepancy between the size of the average account balance, it's probably no surprise that NIRS showed the elderly poor are more likely to be divorced than married elderly Americans or seniors as a whole.

The news gets worse for women, as those who divorce tend to do worse than men in terms of their retirement savings. However, women who divorce early in life aren't hit as hard as those who end a marriage later, since they have more time to bulk up their own retirement savings account balance.

How to protect your retirement security in case of divorce

Divorce can make it more difficult to save, because household income usually falls when you become the only earner while expenses rise once you're maintaining two separate households rather than just one. And, as mentioned, the costs of ending the marriage itself can affect wealth, as can losing some of your retirement money in the divorce.

There are, however, some steps you can take to make sure that ending your marriage doesn't mean ending the dream of a secure retirement. Some options include:

- *Understanding how Social Security spousal benefits work.* If you were married at least

10 years, you may be entitled to spousal or survivor benefits even after a divorce. If your ex was a higher earner than you, look into whether claiming benefits on his or her work record could help you get larger [Social Security](#) checks.

- *Prioritizing retirement savings.* As soon as your marriage has come to an end, start rebuilding your budget with a focus on saving for the future. Take stock of where you are when it comes to your account balance, set a savings goal based on retiring without a spouse, and automate contributions to your retirement accounts to hit your target. This goal can be difficult to achieve in the aftermath of a failed marriage but aim to begin investing as much as you can, as soon as possible.
- *Making smart investment choices.* If you relied on your ex to make choices about what your accounts should be invested in, dedicate yourself to learning the [fundamentals of investing](#) as soon as possible after your divorce. Earning a better return on investment can only help your nest egg grow.

By reworking your budget as soon as possible after divorce and making sure retirement savings is a top priority, you maximize your chances of achieving the retirement security you deserve even without help from your ex. Christy Bieber, The Motley Fool, www.fool.com, August 13, 2020.

10. THE DEADLINE FOR RETIREES TO RETURN RMDs IS ALMOST HERE:

Some older Americans will get a special tax break this year. But if you're eligible and you don't act fast, you could lose it.

Retirees aren't required to take minimum distributions (RMDs) from their retirement accounts in 2020. If you withdrew money earlier this year and don't need it to live on, then you have until [Aug. 31](#) to return it if you don't want those funds counted toward your income for the year.

In a typical year, people age 72 and over must take [a set amount of money based on an IRS formula](#) from their retirement accounts and pay income taxes on that money. These withdrawals are Uncle Sam's way of finally collecting his cut of the savings that's grown tax-deferred over the decades. But 2020 is hardly a typical year, and in [March Congress waived the RMD requirement for all types of retirement plans](#) including IRAs, 401(k)s, 403(b)s, 457(b)s, and inherited IRA plans. (Lawmakers took similar action during the Great Recession, waiving the RMD requirement for 2009.)

Returning an unwanted RMD to your account can save you on income taxes for the year. Also, if your RMD would have pushed you into a higher income bracket for the purpose of [calculating Medicare premiums](#) and [the portion of your Social Security income that's taxed](#),

then it could save you additional money.

Fidelity Investments recommends making sure the money is received by the Aug. 31 deadline, not postmarked by then, says Melissa Ridolfi, the company's vice president, college and retirement leadership. Fortunately, digital banking can make it easy to meet the deadline. Fidelity has seen a sharp increase in customers' use of mobile check deposits during the pandemic.

Your brokerage firm sends you a Form 1099-R when you withdraw money from your retirement account and a Form 5498 when money is contributed to the account. Hang onto both for when you file your 2020 taxes.

Another key point: Many people automate their RMD withdrawals. Those who turned that function off for this year should make sure to turn it back on for next. The penalty for skipping an RMD is hefty: 50% of the money you didn't distribute on time. "2021 is around the corner," Ridolfi says. Elizabeth O'Brien, Money, <https://money.com>, August 17, 2020.

11. MEN EARN WAY MORE THAN WOMEN AT 2 LOS ANGELES FUNDS:

A large pay disparity exists between female and male employees at the city of Los Angeles' two largest pension plans, according to a recent report by city Controller Ron Galperin.

Among all employers citywide, women earned 76% of the earnings of their male co-workers, with average gross annual pay of \$90,058, compared to an average of \$118,454 for men. The difference is less stark when comparing average hourly wages, with men earning \$47 while women earned \$44.

Men at both of Los Angeles' pension plans earn more than the citywide averages while women earn less. At the \$25 billion Los Angeles Fire & Police Pensions, men make an average hourly rate of \$54 compared to women who make an average of \$43. Both genders make less at the \$19 billion [Los Angeles City Employees' Retirement System](#), with men receiving an average hourly wage of \$51 compared to women who earn \$42 an hour.

Unlike in the city, where women are underrepresented at just 28% of the workforce, the majority of the workers at both city pension plans are female. Some 59% of LAFPP's employees are women, while 69% of LACERS' staff are female.

"While overall I have more females in the department than males, I also have more long-tenured males in the upper ranks of management (assistant general managers and the CIO)," said Ray Ciranna, LAFPP general manager in an email. "The (fund's) investment group is

more balanced these days and will continue to change in the coming years." LACERS officials, meanwhile, declined comment. Arleen Jacobius, *Pension & Investments*, www.pionline.com, August 13, 2020.

12. U.S. CHAMBER OF COMMERCE LAUNCHES NEW CAMPAIGN TO BOLSTER, STRENGTHEN SUPPORT FOR EMPLOYER-SPONSORED HEALTH COVERAGE:

The U.S. Chamber of Commerce announced the launch of [Protecting Americans' Coverage Together \(PACT\)](#), a campaign aimed at strengthening support for the private health coverage that millions of Americans rely on for their health, while raising awareness around the serious threats posed by a Medicare buy-in or public option.

PACT will elevate the voices of employers and employees around meaningful reforms that would reinforce the benefits of the current employer-sponsored insurance (ESI) system rather than resorting to highly disruptive changes that would undermine health care coverage for millions of Americans and their families.

"An overwhelming majority of Americans with employer-sponsored insurance are satisfied with their coverage, and it's easy to see why," said Suzanne P. Clark, president of the U.S. Chamber of Commerce. "The flexibility of it allows companies to tailor benefits and coverage to the needs of their workforce, which is important as our nation confronts a pandemic that is affecting different communities, industries, and families in different ways. Now is the time to bolster the employer-sponsored health insurance, not dismantle it."

ESI provides robust, affordable coverage for 180 million¹ families and retirees, including broad, robust networks which provide access to major hospitals, academic medical centers and a variety of providers. Recently, Congress recognized the critical role of the ESI program during the current COVID-19 public health crisis by providing funding support and assistance so American workers could maintain their health coverage.

Yet as federal and state policymakers consider broader health and marketplace reforms, a public option or Medicare buy-in would erode the ESI program and destabilize coverage across major insurance markets for millions of individuals.

A research report from Matrix Global Advisors, released today by the U.S. Chamber highlights the negative economic effects of a Medicare buy-in or public option, including:

- A decade after the introduction of a public option, 2 million people insured through the individual market could lose access to private plans.
- Medicare buy-in may not cover as much as private insurance and could leave workers

with high out-of-pocket costs or the need to purchase supplemental insurance.

- A Medicare buy-in would cause premiums for those remaining in the individual market to rise between 2 and 10 percent.

Read more from the [report here](#).

Through research and advocacy efforts, PACT will promote the benefits of fostering a strong and robust ESI program, one that has the ability to meet the unique needs of individuals and provide essential coverage to Americans close to retirement. [Learn more about the ongoing work behind the U.S. Chamber's new PACT campaign](#). U.S. Chamber of Commerce, www.uschamber.com, August 14, 2020.

13. HEALTH SAVINGS ACCOUNTS:

A Health Savings Account (HAS) is a tax-advantaged account that individuals can use to pay and save for unreimbursed medical expenses (e.g., deductibles, co-payments, coinsurance, and services not covered by insurance). Eligibility to contribute to HSAs is associated with enrollment in high-deductible health insurance plans (HDHPs); however, HSAs are a trust/custodial account and are not health insurance.

HSAs were first authorized in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (P.L. 108-173) and are one type of health-related tax-advantaged account/arrangement that individuals can use to pay for unreimbursed medical expenses.

HSAs have several tax advantages: individual contributions are tax deductible unless made through a cafeteria plan; employer contributions and individual contributions made through a cafeteria plan are excluded from taxable income and from Social Security, Medicare, and unemployment insurance taxes; account balances may be invested and any corresponding earnings are tax exempt; and withdrawals are not taxed if used for qualified medical expenses.

This report summarizes the principal rules governing HSAs, covering such matters as eligibility, qualifying health insurance, contributions, withdrawals, and tax advantages. It incorporates changes made to HSAs as a result of the Coronavirus Disease 2019 (COVID-19) pandemic and corresponding recession. It concludes with a discussion of HSA data limitations and recent trends in HDHP enrollment and HSA utilization. [Click here](#) to view the full report. Congressional Research Service, <https://crsreports.congress.gov>, August 13, 2020.

14. “YOU’VE WON! NOW PAY US” IS ALWAYS A SCAM:

During these difficult economic times, it is easy to imagine our financial problems disappearing

by winning a big prize. Who wouldn't like to win a million dollars, a new car, or a vacation home? But if you get a call from someone saying, "You've won," don't believe the hype.

Here's how it works. You get a call from someone who says they're from Publishers Clearing House or some other well-known organization. They say, "Congratulations, you've won a million dollars, a Mercedes-Benz, and seven thousand dollars a week for life!" or some other amazing sounding prizes. Then they ask you to pay a "processing fee," "taxes," or "shipping and handling charges," to claim your prize.

The scammers are trying to push you into a heightened emotional state, to knock you off balance just long enough to steal your money and personal information.

The fact is, Publishers Clearing House never notifies winners in advance. And anyone who says, "You've won. Now pay us," is always scammer. Period.

Consider these tips to avoid this scam:

- **Legitimate sweepstakes don't make you pay a fee to get your prize.** That includes paying "taxes," "shipping and handling charges," or "processing fees." There's also no reason to give someone your checking account or credit card number in response to a sweepstakes promotion.
- **Don't send money transfers or gift cards or give personal information.** Sending money transfers or gift cards (or providing the gift card numbers) is like sending cash: once the money's gone, you can't trace it or get it back. The same goes for sending money by mail or using a money order.
- **Don't trust your caller ID.** Scammers can make any name or number show up on your caller ID. They might use an official-sounding name like Publishers Clearing House or Reader's Digest.

Scammers don't just scam one person. Tell your friends and family about the scam so they can avoid it. Then report it to the FTC: [ftc.gov/complaint](https://www.ftc.gov/complaint). Jim Kreidler, Consumer Education Specialist, FTC, www.ftc.gov, August 12, 2020.

15. SELLERS NEED PROOF FOR COVID TREATMENT CLAIMS:

As part of its ongoing efforts to protect consumers from sellers of scam COVID-19 treatments, [the FTC has sent 20 more warning letters to companies](#) that claim their products can prevent, treat or cure the COVID-19. Claims for zappers, virus-busting cards, sage, oregano, and bay leaves are among the representations called into question in the latest round of warning letters.

Like the [hundreds of other warning letters](#) the FTC has sent to other companies, these letters require the sellers to notify the FTC within 48 hours of the specific actions they have taken to address the agency's concerns. The FTC will follow up with companies that fail to make adequate corrections. The good news: in nearly all cases so far, those who get the letters have stopped making the false claims or selling the scam product or treatment.

When it comes to the fight against the Coronavirus, knowing the facts will help. Here are tips to follow and share with others:

- Always talk with your doctor or another healthcare professional before you try any product claiming to treat, cure, or prevent COVID-19.
- Head to [CDC.gov](https://www.cdc.gov) for clear and concise information on COVID-19. In addition, visit the [FDA's Resources](#) page to find out about treatments in development.
- Learn more about scams related to COVID-19 by visiting [ftc.gov/coronavirus](https://www.ftc.gov/coronavirus) and subscribing to [Consumer Alerts](#) from the FTC.
- If you find a product that claims to prevent, treat, or cure COVID-19, report it to the FTC at [ftc.gov/complaint](https://www.ftc.gov/complaint).

Colleen Tressler, Consumer Education Specialist, FTC, www.ftc.gov, August 14, 2020.

16. IRS TAKES NEW STEPS TO ENSURE PEOPLE WITH CHILDREN RECEIVE \$500 ECONOMIC IMPACT PAYMENTS:

The Internal Revenue Service continues to look for ways to help people who were unable to provide their information in time to receive Economic Impact Payments for their children. As part of that effort, the Internal Revenue Service announced today it will reopen the registration period for federal beneficiaries who didn't receive \$500 per child payments earlier this year.

The IRS urges certain federal benefit recipients to use the IRS.gov [Non-Filers tool](#) starting Aug. 15 through Sept. 30 to enter information on their qualifying children to receive the supplemental \$500 payments.

Those eligible to provide this information include people with qualifying children who receive Social Security retirement, survivor or disability benefits, Supplemental Security Income (SSI), Railroad Retirement benefits and Veterans Affairs Compensation and Pension (C&P) benefits and did not file a tax return in 2018 or 2019.

The IRS anticipates the catch-up payments, equal to \$500 per eligible child, will be issued by mid-October.

“IRS employees have been working non-stop to deliver more than 160 million Economic Impact Payments in record time. We have coordinated outreach efforts with thousands of community-based organizations and have provided materials in more than two dozen languages,” said IRS Commissioner Chuck Rettig. “Given the extremely high demand for EIP assistance, we have continued to prioritize and increase resource allocations to eligible individuals, including those who may be waiting on some portion of their payment. To help with this, we are allocating additional IRS resources to ensure eligible recipients receive their full payments during this challenging time.”

Used the Non-Filers tool after May 5? No action needed.

For those Social Security, SSI, Department of Veterans Affairs and Railroad Retirement Board beneficiaries who have already used the Non-Filers tool to provide information on children, no further action is needed. The IRS will automatically make a payment in October.

Didn't use the IRS Non-Filers tool yet? Provide information by Sept. 30

For those who received Social Security, SSI, RRB or VA benefits and have not used the Non-Filers tool to provide information on their child, they should register online by Sept. 30 using the Non-Filers: Enter Payment Info Here tool, available exclusively on IRS.gov. Remember, anyone who filed or plans to file either a 2018 or 2019 tax return should file the tax return and not use this tool.

For those unable to access the Non-Filers tool, they may submit a simplified paper return following the procedures described in this [FAQ](#) on IRS.gov.

Any beneficiary who misses the Sept. 30 deadline will need to wait until next year and claim it as a credit on their 2020 federal income tax return.

Those who received their original Economic Impact Payment by direct deposit will also have any supplemental payment direct deposited to the same account. Others will receive a check.

Eligible recipients can check the status of their payments using the Get My Payment tool on IRS.gov. In addition, a notice verifying the \$500-per-child supplemental payment will be sent to each recipient and should be retained with other tax records.

Other Non-Filers can still get a payment; must act by Oct. 15

Though most Americans have already received their Economic Impact Payments, the IRS

reminds people with little or no income and who are not required to file tax returns that they remain eligible to receive an Economic Impact Payment.

People in this group should also use the Non-Filers' tool – but they need to act by Oct. 15 to receive their payment this year.

Anyone who misses the Oct. 15 deadline will need to wait until next year and claim it as a credit on their 2020 federal income tax return.

Available in both English and Spanish, the Non-Filers tool is designed for people with incomes typically below \$24,400 for married couples, and \$12,200 for singles. This includes couples and individuals who are experiencing homelessness. People can qualify, even if they don't work or have no earned income. But low- and moderate-income workers and working families eligible to receive special tax benefits, such as the Earned Income Tax Credit or Child Tax Credit, cannot use this tool. They will need to file a regular return by using IRS Free File or by another method.

Other important notices involving Economic Impact Payments:

Spouse's past-due child support. The IRS is actively working to resolve cases where a portion or all of an individual's payment was taken and applied to their spouse's past-due child support. People in this situation do not need to take any action. The IRS will automatically issue the portion of the EIP that was applied to the other spouse's debt.

Spouses of deceased taxpayers. Upon enactment of the CARES Act, the IRS initially implemented the legislation consistent with processes and procedures relating to the 2008 stimulus payments (which were transmitted to deceased individuals). After further review this spring, Treasury determined that those who died before receipt of the EIP should not receive the advance payment. As a result, the EIP procedures were modified to prevent future payments to deceased individuals. The cancellation of uncashed checks is part of this process. Some EIPs to spouses of deceased taxpayers were cancelled. The IRS is actively working on a systemic solution to reissue payments to surviving spouses of deceased taxpayers who were unable to deposit the initial EIPs paid to the deceased and surviving spouse. For EIPs that have been cancelled or returned, the surviving spouse will automatically receive their share of the EIP.

The IRS has taken steps to get payments to as many eligible individuals as possible. A recent oversight report confirmed that the IRS correctly computed the amount due for 98% of the payments issued. However, the IRS acknowledges the significance for those who have not yet

received their full payment. The IRS continues to look at ways to help people get the right amount of the payment and will continue to provide updates on additional enhancements as they occur.

For more Information on the Economic Impact Payment, including updated answers to frequently-asked questions and other resources, visit [IRS.gov/coronavirus](https://www.irs.gov/coronavirus). These online resources are helpful for people who might not understand (i) why the payment received is less than \$1,200, (ii) that they are ineligible to receive a payment, or (iii) why they may not be eligible to receive the \$500 per qualifying child payment. IRS Newswire IR-2020-180, www.irs.gov, August 14, 2020.

17. UNEMPLOYMENT COMPENSATION IS TAXABLE; HAVE TAX WITHHELD NOW AND AVOID A TAX-TIME SURPRISE:

With millions of Americans now receiving taxable unemployment compensation, many of them for the first time, the Internal Revenue Service today reminded people receiving unemployment compensation that they can have tax withheld from their benefits now to help avoid owing taxes on this income when they file their federal income tax return next year.

By law, unemployment compensation is taxable and must be reported on a 2020 federal income tax return. Taxable benefits include any of the special unemployment compensation authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted this spring.

Withholding is voluntary. Federal law allows any recipient to choose to have a flat 10% withheld from their benefits to cover part or all of their tax liability. To do that, fill out [Form W-4V](#), Voluntary Withholding Request (PDF), and give it to the agency paying the benefits. Don't send it to the IRS. If the payor has its own withholding request form, use it instead.

If a recipient doesn't choose withholding, or if withholding is not enough, they can make quarterly estimated tax payments instead. The payment for the first two quarters of 2020 was due on July 15. Third and fourth quarter payments are due on Sept. 15, 2020, and Jan. 15, 2021, respectively. For more information, including some helpful worksheets, see [Form 1040-ES](#) and [Publication 505](#), available on IRS.gov.

Here are some types of payments taxpayers should check their withholding on:

- Unemployment compensation includes: Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund
- Railroad unemployment compensation benefits

- Disability benefits paid as a substitute for unemployment compensation
- Trade readjustment allowances under the Trade Act of 1974
- Unemployment assistance under the Disaster Relief and Emergency Assistance Act of 1974, and
- Unemployment assistance under the Airline Deregulation Act of 1978 Program

Recipients who return to work before the end of the year can use the [IRS Tax Withholding Estimator](#) to make sure they are having enough tax taken out of their pay. Available only on IRS.gov, this online tool can help any worker or pension recipient avoid or lessen their year-end tax bill or estimate the refund they want.

In January 2021, unemployment benefit recipients should receive a [Form 1099-G](#), Certain Government Payments (PDF) from the agency paying the benefits. The form will show the amount of unemployment compensation they received during 2020 in Box 1, and any federal income tax withheld in Box 4. Taxpayers report this information, along with their W-2 income, on their 2020 federal tax return. For more information on unemployment, see Unemployment Benefits in [Publication 525](#). IRS Newswire IR-2020-185, www.irs.gov, August 18, 2020.

18. SOCIAL SECURITY UNVEILS REDESIGNED RETIREMENT BENEFITS PORTAL:

The Social Security Administration announced the first of several steps the agency is taking to improve the public's experience on its website. The newly redesigned retirement benefits portal, at www.socialsecurity.gov/benefits/retirement, will help millions of people prepare for and apply for retirement.

"We are working hard to continue improving our website to provide people with clear, helpful information and easy access to our online services," said Andrew Saul, Commissioner of Social Security. "Our new retirement portal is more user-friendly and easier to navigate, whether someone is ready to learn about, apply for, or manage their retirement benefits."

The redesigned portal will make it easier for people to find and read about Social Security retirement benefits, with fewer pages and condensed, rewritten, and clearer information. The portal also is optimized for mobile devices so people can learn and do what they want from wherever they want, and the portal now includes the ability to subscribe to receive retirement information and updates.

Click on www.socialsecurity.gov/benefits/retirement to find out how to Learn, Apply, and Manage retirement benefits, and learn how to create a personal my Social Security account online.

More improvements to Social Security's website are planned for later in 2020 as the agency seeks to continuously improve the public experience at www.socialsecurity.gov. Mark Hinkle, Acting Press Officer, Social Security Press Release, www.ssa.gov, August 18, 2020.

19. FOR THOSE WHO LOVE WORDS (LOGOPHILES):

Police were called to the daycare center. A 3-year old was resisting a rest.

20. EVER WONDER? Why is 'abbreviated' such a long word?

21. INSPIRATIONAL QUOTE:

Difficult and meaningful will always bring more satisfaction than easy and meaningless.

Maxime Lagacé

22. TODAY IN HISTORY:

On this day in 1964, US President Lyndon B. Johnson signs the Economic Opportunity Act, an anti-poverty measure totaling nearly \$1 billion.

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



CYPEN & CYPEN NEWSLETTER for August 27, 2020

Copyright, 1996-2020, all rights reserved
Stephen H. Cypen, Esq., Founding Editor
Robert D. Klausner, Esq., Senior Editor

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

1. PUBLIC PLAN FUNDING NOT SUCCUMBING TO VIRUS, RESEARCH FINDS:

Public pension plans will see virtually no change in their average funding ratio during fiscal year 2020 despite the ongoing COVID-19 pandemic, [research from the Center for State and Local Government Excellence and the Boston College Center for Retirement Research](#) found.

And while the financial strains that the recession put on plan sponsors could make it more difficult for them to pay their required contributions, the research suggests that small public plans have sustainable cash flows. The exceptions, of course, are the worst-funded plans.

State and local plans appear to have similar short- and near-term paths. Funded ratios for state plans are projected to be 72.4% on average for 2020, vs. 70.8% for local plans.

The research projects local plans to have an aggregate funded ratio between 61.7% and 64.6% by fiscal year 2025, while state plans are projected to have an aggregate funded ratio between 65.2% and 68.2% and during that period.

"It is still unclear the extent to which the COVID-19 pandemic and related economic downturn will negatively affect the overall finances of state and local governments," said Joshua Franzel, SLGE president and CEO, in a news release. "Given the differences in revenue structures, intergovernmental transfers, access to capital and overall service and programmatic responsibilities, it is likely that there will be both similarities and differences regarding impacts on states vs. localities." James Comtois, *Pension & Investments*, www.pionline.com, August 18, 2020.

2. ONLY 1 IN 5 OF THE 143 LARGEST PUBLIC PENSIONS IS STRONG:

Only one in five of the 143 largest statewide public retirement systems in the U.S. are resilient, a new analysis published by the bipartisan nonprofit Equable Institute shows.

Public sector funding peaked in 2001, with nearly 3 out of 4 statewide plans 90 percent funded or better. By 2020, one in five statewide plans have a "resilient funded" status. The report, "State of Pensions 2020," analyzes trends in public pension funding, investments, contributions, cash flow and maturation of retirement systems that had more than \$1 billion in assets through 2019.

The current estimated funded ratio for 143 statewide plans is 67.9 percent, near the lowest point in modern history. And five states – California, Illinois, New Jersey, Pennsylvania and Texas – account for more than 50 percent of unfunded liabilities. The institute, which works with public retirement system stakeholders to solve complex pension funding challenges, found that nationally, public pension funding has been in decline since 2001. Despite the decade-long bull market, the recession following coronavirus shutdowns leave them in a worse position than the Great Recession did.

State and local public employee retirement systems in the U.S. manage over \$4.3 trillion in public pension fund investments, according to Pew Charitable Trusts. Returns on these assets account for more than 60 cents of every dollar available to pay promised benefits, it found in a December 2019 report.

"About three-quarters of these assets are held in what are often called risky assets – stocks and alternative investments, including private equities, hedge funds, real estate, and commodities," the Pew report said.

Research by The Pew Charitable Trusts found that since the Great Recession, public pension plans have lowered return targets in response to changes in the long-term outlook for financial markets. Pew analyzed the 73 largest state-sponsored pension funds, which collectively manage 95 percent of all investments for state retirement systems. The average assumed return for these funds was 7.3 percent in 2017, Pew found, down from over 7.5 percent in 2016 and 8 percent in 2007 just before the downturn began.

"The pension asset shortfall for statewide plans keeps growing," the Equable Institute report states. "At the end of 2019, there was no net recovery from losses during the Great Recession and Financial Crisis." The institute estimates that unfunded liabilities will grow to \$1.62 trillion in 2020, up from \$1.35 trillion in 2019, and from \$1.16 trillion in 2009.

"One of the most concerning findings from the report is a trend toward rapidly expanding net negative cashflows, as a result of plan maturation," the report states.

"Although contribution rates have progressively increased (a positive trend from the perspective of plan funding), benefit payments are also growing steadily (because of increased retirements), resulting in a net negative cashflow of -\$113 billion for 2019," it continues. Because the trend has steadily worsened since 2009, the institute says it will be increasingly difficult for governments to invest their pension plans back to health.

If assumed returns had kept pace with declining interest rates since 2001, the institute analysis says, average assumption in 2019 would have been around 5.1 percent. In 2020, the average assumed rate of return is 7.2 percent. "We estimate the average investment return for statewide plans as of June 30, 2020 is -0.44 percent based on the most recent asset allocation reports from each plan," the institute says. "This is 763 basis points below the average 7.19 percent assumed return for the fiscal year."

The report also analyzed unfunded liabilities relative to state GDP and found that states with some of the most visible pension funding challenges, including New Jersey, Kentucky and Illinois, have the largest share of unfunded liabilities relative to their state's GDP, topping 15 percent, respectively. Wire Reports, <https://insurancenewsnet.com/>, August 19, 2020.

3. STATE PENSIONS ENTERED PANDEMIC IN WORSE POSITION THAN IN 2008:

Despite the benefit of the longest-running bull market in US history, new research finds that statewide public pension funds entered the COVID-19 recession in a worse position than they did the Great Recession of 2008.

According to a [report](#) from bipartisan nonprofit Equable Institute, some 80% of public pension funds are not resilient enough to withstand a market downturn in the future. The report defines a resilient pension as one that has a funded ratio of 90% or higher for at least two to three consecutive years. That's a near complete reversal from 2001 when nearly 75% of statewide pension plans had funded levels of 90% or higher.

"These [resilient] plans are generally in a strong position to recover from financial downturns," according to the report, "as funding policy improvements are easier to make when the plan's finances are stable."

The report also estimates that unfunded liabilities for state-managed pension funds will increase to \$1.62 trillion this year from \$1.35 trillion last year, bringing the aggregate funded ratio to "near its lowest point in modern history" at 67.9%.

The report analyzed trends in funding, investments, contributions, cash flow, and maturation for 143 of the largest statewide retirement systems with at least \$1 billion in accrued liabilities in all 50 states.

"For state leaders to understand the best ways to navigate their retirement system challenges in the age of COVID-19, it is critical to understand the trends for pension systems following the Great Recession," said Anthony Randazzo, Equable's executive director and co-author of the report. "There are lessons about what policies should be avoided, and what some states did to break from the pack and recover before this most recent economic downturn."

The report found that five states--California, Illinois, New Jersey, Texas, and Pennsylvania--account for more than half of the public pension unfunded liabilities in the US with an estimated \$693 billion in unfunded liabilities. The California Public Employees' Retirement System (CalPERS)'s unfunded liabilities of \$161 billion alone accounted for 12% of the total statewide pension plan funding shortfall in the US, while the Illinois Teachers' Retirement System (TRS)'s unfunded liabilities of \$81 billion are larger than nearly any other state's funding shortfall.

Because of the market volatility caused by the COVID-19 pandemic, half of the plans with a funded status greater than 90% at the end of last year slipped into what the report calls

a “fragile position,” which means the plans are between 60% and 90% funded. Another 12 plans moved from fragile to “distressed funded status,” which means their funded levels are below 60%.

Equable also found that states and pension boards have failed to lower “overly optimistic” assumed rates of investment return to match the pace of falling interest rates. It said that if assumed rates of return had kept up (or down) with declining interest rates since 2001, the average assumption in 2019 would have been around 5.1%, but instead it is 7.2%.

“The slow pattern of assumed return reduction relative to interest rates has tacitly meant pension funds are taking on risk,” the report said. “The growing gap between interest rates and assumed rates of return reflects as an increased amount of risk that pension funds are accepting.”

There was also a net negative cashflow of \$113 billion for 2019, according to the report. Despite contribution rates having risen in recent years, increased retirements mean benefit payments are also growing. The report said this decadelong trend will make it hard, or even impossible, for pension funds to find their way back to fiscal health though investing alone.

“We do not expect these negative trends will reverse without some intervention,” the report said. “Pension funds will not be able to invest their way out of the shortfall relative to growing promised benefits.” Michael Katz, Chief Investment Officer, www.ai-cio.com, August 20, 2020.

4. NEW LEGAL PRECEDENT SET FOR PUBLIC PENSION POLICY:

The Washington Pension Funding Council recently [voted to maintain](#) a 7.5 percent assumed rate of growth for pension investments to ease financial pressure on the state and public employers which must both contribute to those plans. In Oregon, state lawmakers last year adopted a radical new approach to addressing its financial obligations by taking a portion of employee defined contributions in hybrid plans and using it to cover part of the employer-funded side.

The 2019 state law was challenged by several Oregon public employees, but was [upheld by the Oregon State Supreme Court](#) this month, setting a new precedent regarding public pension policy. The move by the Oregon state legislature also reflects the health of its public pension system compared to Washington state’s, though some analysts say that could change.

Under the 2019 Oregon state law, employees making \$30,000 or more a year and enrolled in a Public Employees' Retirement System (PERS) plan must contribute 2.5 percent of their salary to a stability account to offset unfunded parts of the employer contributions. Their remaining 3.5 percent salary contribution would still pay for their individual plan.

Ryan Frost is a policy analyst for the Reason Foundations' Pension Integrity Project. In an email, he wrote that the new Oregon high court ruling "seemingly created a court-validated playbook for any state that has underfunded pensions, and is currently using a hybrid benefit design for current members. That playbook is to steal contributions made by members to their DC (defined contributions) accounts to cover the rising costs of DB (defined benefits) pension debt.

The policy is intended to help curb the costs for 906 Oregon public employers that must contribute to pension funding. While most of Washington's pension system uses a 7.5 percent assumed rate of growth, Oregon currently uses a 7.2 percent rate. Oregon's unfunded liability is also much greater than Washington's, which [dropped from \\$12.6 billion in 2016 to \\$8 billion](#). Oregon's [unfunded liability is currently at \\$27 billion](#) and isn't expected to reach Washington's level until 2037.

Washington State Deputy Actuary Lisa Won told Lens that the organization doesn't comment on other state's pension policies, but noted that the only unfunded liabilities currently in Washington state's system are for PERS Plan 1 and Teachers' Retirement System (TRS) Plan 1, legacy retirement plans that were closed in the 1970s. Washington was the first state to offer hybrid plans, where both the employee and employer put money into the pension.

However, Washington's unfunded liability could go up if the long-term growth rate was below 7.5 percent, or if the state adopted lower growth assumptions without increasing employer contributions. State Actuary Matt Smith has twice recommended lowering the rate to 7.4 percent. Last month he told the Pension Funding Council that the state can either increase investments into the system now or have an even greater financial liability in the future.

"While WA's pensions are relatively healthy outside of the legacy Plan 1's, the continued budgetary pressures exacerbated by Covid-19 could lead to this type of scenario playing out in the future," Frost wrote. "We have already seen cost-saving measures enacted this month by the Pension Funding Council, who failed to adopt an accurate investment return assumption to save the state and employers money this upcoming biennium."

The effects of the ongoing recession and economic shutdown due to COVID-19 also won't be known until the 2023-25 biennium, when a 1989 state law requires TRS Plan 1 and PERS Plan 1 be fully funded. Employer contribution rates are also scheduled to decrease for all but two pension plans starting in the 2023-25 biennium.

The financial burden of the pension system could also grow if the ratio between active employees and retirees changes, though the State Actuary's Office projects it will remain between 1:3-1:15 through 2050. Currently, there are 330,000 active employees in Washington's pension system compared to 190,000 retirees.

State Office of Financial Management Director David Schumacher declined to comment for the story. Pension Funding Council members Sen. Braun (R-20), Rep. Drew Stokesbary (R-31) and Sen. Christine Rolfes (D-23) did not respond to requests for comment. TJ Martinell, <https://thelens.news>, August 19, 2020.

5. DESPITE PANDEMIC, RETIREMENT SAVING STAYS STEADY:

Though the COVID-19 pandemic has brought about economic stresses, Americans continued to save for retirement at a steady clip in the first half of the year, according to research published Wednesday by the Investment Company Institute.

Preliminary estimates indicate that only 2% of defined contribution plan participants stopped contributing to their plans in the first half of 2020, a typical rate for most of the 12 years ICI has tracked the data, according to its study "[Defined Contribution Plan Participants' Activities, First Half 2020](#)."

In the first half of 2009, another period of financial stress, 4.6% of DC plan participants stopped contributing and in the first half of 2019 the figure was 1.3%.

Withdrawal activity for DC plans remained low in the first half of year, although it was up slightly compared to the same period last year. In the first half of 2020, 2.8% of DC plan participants took withdrawals, compared with 2.5% in the first half of 2019, the report found.

Moreover, levels of hardship withdrawal activity were low: 1.1% of DC plan participants took hardship withdrawals in the first half of the year, the same share of participants as in the first half of 2019.

"These data reflect the long-term mindset of retirement savers," said Sarah Holden, ICI

senior director of retirement and investor research, in a news release. "We see a slight increase in withdrawal activity following the onset of economic volatility and hardship, but the increase is much smaller than you might expect, given the severity of the COVID-19 economic downturn."

The data also showed 2.9% of DC plan participants took a coronavirus-related distribution in the first half of the year, according to record keepers surveyed. The Coronavirus Aid, Relief, and Economic Security Act, known as the CARES Act, which Congress passed in March, provides penalty relief and increased flexibility in retirement plan withdrawals for individuals affected by COVID-19.

With coronavirus-related distributions now on the table, DC plan participants' loan activity edged down in the second quarter of 2020, the study found. At the end of June, 15.6% of DC plan participants had loans outstanding, compared with 16.3% as of March 31 and 16.1% on Dec. 31.

The ICI study tracks contributions, withdrawals and other activity in 401(k) and other DC retirement plans, based on DC plan record-keeper data covering more than 30 million participant accounts in employer-based DC plans as of June 30. Brian Croce, *Pension & Investments*, www.pionline.com, August 19, 2020.

6. RETIREMENT LIVING: HERE'S WHAT IT COSTS TO RETIRE COMFORTABLY IN EVERY STATE:

One of the reasons that many Americans get up and go to work every day is to put some money away for [retirement](#). While [Social Security](#) payments can be a helpful financial foundation in retirement, it is often not enough to cover anything but the most basic expenditures, especially in the uncertain financial times wrought by the coronavirus pandemic.

Based on average annual spending for American seniors and the national average life expectancy at age 65 of 19.4 years, the average American will spend about \$987,000 from retirement age on. And those hoping for a more comfortable and financially secure retirement should plan on saving a little more.

Of course, both cost of living and life expectancy vary considerably by state – and so, too, does the cost of retirement. Using the average annual spending of Americans 65 and older – adjusted at the state level for cost of living and life expectancy – 24/7 Wall St. calculated what it will cost to retire comfortably in each state. All data used in the ranking came from the Bureau of Economic Analysis, the Bureau of Labor Statistics, and

the [Institute for Health Metrics and Evaluation](#), an independent global health research center at the University of Washington.

One of the best ways to prepare financially is through retirement-specific accounts, such as IRAs or 401(k)s. These types of funds offer special tax benefits and often come with employer matches. Those who fail to save enough and take advantage of options like these – or draw from them before they hit retirement age – may have to work past age 65 in order to pay the bills. [Here is what you can do if COVID-19 is threatening your retirement.](#)

Just how much one needs to save to comfortably meet expected spending from age 65 on depends on a number of factors. Many who work in the public sector, for example, may benefit in retirement from regular pension payments, in addition to Social Security. The amount of these pension payments vary by state and employer. Even in some of the most expensive places to retire, state subsidies can help finance the cost of retirement. [These are the states spending the most to fund their residents' retirement.](#) Following is the estimated retirement spending for Florida.

Florida:

- **Est. total retirement spending:** \$1,194,451 (9th most)
- **Avg. cost of living:** +0.6% more than avg. (15th highest)
- **Avg. monthly homeownership cost for senior citizens:** \$494 (21st highest)
- **Pop. 65 and older:** 20.5% (2nd highest)

Florida's warm climate makes it an ideal location for many Americans to retire. In fact, more than one in every five residents of the Sunshine State are 65 or older, the second largest share of any state in the country. Residents who are 65 in the state are expected to live to an average of just over 85, about a year longer than the national average.

Due in part to the higher life expectancy, the estimated retirement costs in Florida are \$1,194,451, greater than the \$1,134,687 national average.

Methodology

To determine what it costs to retire comfortably in every state, 24/7 Wall St. calculated the amount of money needed to last the average retiree for the rest of his or her life using data from the Bureau of Labor Statistics, Bureau of Economic Analysis, and the Institute for Health Metrics and Evaluation. Our calculation was based on the average annual expenditure for U.S. residents 65 years and older in 2018 – \$50,860 – according to the BLS Consumer Expenditure Survey. We adjusted that figure by local cost of living, using

state-level data on regional price parity in 2017 from the BEA, and multiplied the result by 115% in order to reflect greater financial stability and comfort in retirement.

Finally, to determine the amount needed to last the average retiree for the rest of his or her life, we multiplied the adjusted annual expenditure figure by the number of years residents are expected to live at age 65, using state-level data from the IMHE's Global Health Data Exchange for 2017.

Data on the share of the population that is 65 and over, the mean annual earnings for 65+ households, the share of 65+ households with earnings, the 65+ homeownership rate, and homeownership costs came from the U.S. Census Bureau's 2018 American Community Survey. All data are for the most recent period available. *To view the entire list for all the states click [here](#).* Michael B. Sauter, *USA Today*, www.usatoday.com, August 17, 2020.

7. THE COMPANY RETIREMENT MATCH REMAINS THE NORM DESPITE CORONAVIRUS RECESSION:

The overwhelming majority of companies offering matching contributions to their employee retirement plans have continued putting money on the table to help their workers save for retirement during the [coronavirus](#) downturn.

Only 11 percent of employers suspended their company match in the second quarter, according to the latest retirement savings trend report from Fidelity Investments.

As the spread of the novel coronavirus began to affect the economy earlier this year, many companies, forced to close and send employees home, [suspended](#) or reduced matching contributions to their employee retirement plans. Amtrak, citing an [unprecedented loss of ridership and revenue](#) because of the pandemic, suspended its 401(k) match.

During the Great Recession, many companies reduced or suspended matching contributions.

Financial experts often chide workers for not contributing at least enough to workplace retirement plans such as a 401(k) account to get the maximum match offer by their companies. Fidelity said the most popular match formula for the plans it manages is a 100 percent match for the first 3 percent of employee contributions, and then a 50 percent match for the next 2 percent. About 40 percent of 401(k) plans use this formula, according to Fidelity.

More than three-quarters of workers received an employer contribution in the second quarter. The average employer contribution was \$1,080.

“The company match can help drive participation in a workplace savings plan while providing employees with a savings goal to aim for, so we are encouraged to see that the majority of our clients continued to provide this important retirement savings benefit,” said Kevin Barry, president of workplace investing at Fidelity.

Among employers who suspended the company match, 32 percent said they plan to reinstate the benefit within the next year and 48 percent have plans to restore their matches as soon as corporate finances improve, according to the Fidelity report. Only 6 percent said they have no plans to go back to matching employee contributions.

The report also found that many retirement plan investors weren't scared off by the volatility in the stock market. Eighty-eight percent of workers contributed to their 401(k), dropping only slightly from last quarter's record high of 89 percent, Fidelity reported.

Just under 1 percent of 401(k) investors stopped their retirement contributions, and 9 percent increased their contribution rate.

If you can afford it, consider increasing your own contributions if your employer has suspended its match. Michelle Singletary, *The Washington Post*, www.washingtonpost.com, August 17, 2020.

8. PENSION DEBT EXPECTED TO SURGE DUE TO COVID-19 VOLATILITY:

Underfunded defined benefit (DB) pension plans can expect to see their liabilities surge over the next several months due to volatility from the COVID-19 pandemic. According to research from Moody's Investors Service, companies are on pace to see a 6% increase in total adjusted debt in 2020 as modest asset returns fail to offset tumbling discount rates.

Moody's said in a recent report that 2020 has so far “proved to be a roller coaster ride” for the two drivers of pension funding: the discount rate and the return on plan assets.

It noted that the discount rate has plunged 96 basis points (bps) to an all-time low of 2.26% as of the end of July, while asset returns have had monthly swings from being down 5% in March to a high of being up 2% in July relative to their fair market value at the end of 2019.

The report also said that the transportation and auto industries lead the list of companies

with legacy pension exposure that have also been affected by the pandemic. The top four companies in these two industries are American Airlines, Delta Airlines, Ford Motor Company, and General Motors.

Moody's noted that many of the larger corporate pension plans have calendar year-ends, and that pension disclosures are updated on an annual basis and included in a company's year-end filing.

"The world has vastly changed since Dec. 31, which means disclosed pension funding levels may not be recognizable when Dec. 31 Form 10-Ks are filed," according to the report.

The report also said that the "playing field for corporate plan sponsors will change once again" due to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a more than \$2 trillion economic stimulus bill that was signed into law in March. It said it expects many companies will take advantage of a provision of the CARES Act that allows plan sponsors to delay contributions that would have been due during calendar year 2020 until January 2021.

"Though the delay of these contributions will provide near-term cash flow relief for plan sponsors," said the report, "interest expense will be accrued at the plan's effective interest rate on these delayed payments, beginning on their original due date."

In the report, Moody's also noted that multiemployer pension plans (MEPPs) "are dangerously underfunded" due to a lack of regulation and a sharp drop in the number of companies participating in the plans.

"Many plans are now past a point where companies that contribute to these funds can cure the overall underfunding," said the report. "While MEPP reform has been proposed many times in the US Congress, there has been little headway within the House and Senate."

In the meantime, it said, the top 50 companies by multiemployer pension plan contribution "are seeing year-over-year growth in contributions that continue to be a drain on operating cash flow." Michael Katz, Chief Investment Officer, www.ai-cio.com, August 17, 2020.

9. PUBLIC PENSION FUNDING AND REFORM - OR LACK THEREOF - WHEN WE'RE NOT 'ALL IN THIS TOGETHER': Regular readers [will know the story by now](#): the governors and legislators in charge of worst-of-the-worst underfunded public pension

plans -- Illinois, Kentucky, New Jersey, and Connecticut, each with a funded status hovering around 40% -- face a likelihood of funding levels worsening even more as they make their way through the corona-recession.

In one respect, the pension funding situation is not as bleak as it might have been: when the U.S. stock market crashed in March following the realization that we would not be spared in the coronavirus pandemic, the funded status of the nation's public pensions plans crashed -- or, at any rate, dropped considerably -- along with it. According to [Milliman's Public Pension Funding Index](#) (PPFI), funded ratios dropped from 74.9% down to 66% from year-end 2019 to March 31, 2020. As it turned out, of course, the stock market recovered -- for now, at least -- and the PPFI stands at 71.2%, the same level as it was on March 31, 2019.

But the stock market is only part of the picture. Illinois' revenue projections as of May 20 project a 12% tax revenue drop. Their response? Not budget cuts, certainly not a willingness to reconsider pension reform -- only borrowing and the hope for federal cash. New Jersey -- anticipated revenue drop 18% — has indeed cut spending and is also deferring indefinitely its scheduled pension contributions. Connecticut, which predicted an 11% revenue drop on April 30, is likewise business-as-usual, except without embarrassing its residents [by making an unseemly bailout request](#). And none of these states' leaders have found it even worth discussing, to talk about pension reform. (See the National Conference of State Legislatures for [revenue projections](#) and [state actions](#), as well as my [July article on the topic](#).)

Which brings me to a [webinar last week](#) sponsored by NIRS, the National Institute on Retirement Security, to revisit some of their take-aways from a 2011 report on the Great Recession, "[Lessons from Well-Funded Public Pensions: An Analysis of Six Plans that Weathered the Financial Storm](#)." In that report, they profiled six comparatively well-funded pension plans; in the webinar, they brought together experts from three of those plans, the statewide retirement systems for New York, Idaho, and Wisconsin.

Some of the characteristics of these plans are straightforward. For instance, they are more likely to have a small COLA, or at the discretion of the legislature, rather than Illinois' guaranteed 3% compounded COLA. They also consistently make the Actuarially Determined Contribution, year after year -- which means, of course, that there is no need for more burdensome catch-up contributions later on. (For example, one of the plans profiled in the original report, the Illinois Municipal Retirement Fund, is well-funded because the state compels municipalities to make their required contributions.)

But there's another key, as identified by Bob Conlin, representing the 99% Wisconsin Retirement System, and that's culture. Recall that the [Wisconsin system](#) involves risk-sharing: each year's employee contribution (not just employer contribution) varies based on the requirements due to the funded status/funding method, and retirees' benefits are adjusted up or down based on investment returns. And here are Conlin's comments (my transcription based on the [audio recording](#)), after some preliminary words on the importance of educating participants on how their benefits work, and being asked, "Do you attribute a part of your success to a healthy culture?"

"The shared risk system . . . has been fully engrained where taxpayers and employees and retirees are kind of all in this together, and that kind of goes with the communication aspect of it, but it's been a cultural phenomenon. It's a little bit different than a lot of public plans, and I think over the years we have been communicating more about that, and it has kind of created a, I think, a Wisconsin ethos around our public pension system that folks are touting. They like it, they understand there's risk with it, that retirees could actually see their pensions go down a bit, yet they're still supportive of that because in good times, they also share in that as well, so it is a cultural thing.

"People often ask, 'so can't we import the Wisconsin model into our systems?' And I -- well, there are certain things you can do, there is a cultural component to it I think that takes some breeding and some cultivation to develop over time."

Now, observing Wisconsin from across the border, there certainly appears to be more of a sense of solidarity and common culture among Wisconsinites than in Illinois. Cheese, beer, the corner tavern, the Packers, a [label for Illinoisans coming north](#) which, if written out, couldn't be printed in a family paper. Kenosha was the subject of a ["parachute-journalism" style article](#) at *Harper's Magazine*, which tried to find blue-collar union activism but missed Kenosha's car culture, typified by the summer car shows (well, cancelled this summer). Perhaps that's missing serious divisions not apparent to the outsider, but that raises the question of whether a state like Illinois with its long legacy of corruption, of unions and machine politicians in it for themselves, and, quite honestly, without any "glue" that holds it together, is simply incapable of implementing a retirement system that requires an "all in this together" attitude.

How do you get from here to there? So far, Illinois hasn't figured that out, and its leaders (who are busily promoting a constitutional amendment enabling a graduated income tax, by labelling it a "fair tax" and claiming only the very rich will be affected) don't really seem to have recognized how important this is in the first place. Elizabeth Bauer, Forbes, www.forbes.com, August 23, 2020.

10. WHY TAKING SOCIAL SECURITY EARLY COSTS TOO MUCH:

Starting Social Security early typically means getting a smaller benefit for the rest of your life. The penalty is steep: Someone who applies this year at age 62 would see their monthly benefit check reduced by nearly 30%.

Many Americans have little choice but to accept the diminished payments. Even before the pandemic, about half of retirees said they quit working earlier than they'd planned, often due to job loss or health issues. Some have [enough retirement savings](#) to delay claiming Social Security, but many don't. And now, with unemployment approaching Depression-era levels, claiming early may be the best of bad options for older people who can't find a job.

But the penalty for early filing, and the bonus for delaying your application, are based on old formulas that don't reflect gains in life expectancy, says economist Alicia Munnell, director of the Center for Retirement Research at Boston College. The result is a system that unfairly penalizes early filers, unjustly benefits late filers " and hurts lower-income people the most.

'Low-income people disproportionately collect benefits at 62 and their benefits are cut too much, and high-income people disproportionately delay claiming till 70 and their benefits are increased too much,' Munnell says. 'So you penalize the low-income and you benefit the high-income.'

The problem started off as a solution

Originally, Social Security had one retirement age: 65. In 1956, Congress authorized a reduced benefit for women, to allow them to retire [at the same time as their typically older husbands](#). The reduced benefit option was extended to men in 1961.

The amount of the reduction was meant to be 'actuarially neutral,' so that the cost to Social Security would be the same whether those with average life expectancies claimed the smaller check earlier or the larger check later.

As life expectancies rose, though, early filers wound up living with the penalty for longer. In 1956, a 65-year-old woman had an average life expectancy of 16.9 years. Today, it's 21.6 years, Munnell says. Instead of being actuarially neutral, in other words, the current system results in early filers with average life expectancies getting less.

On top of that, Social Security [offers a bonus](#) for those who can afford to wait. A 1%

delayed retirement credit was introduced in 1972, and the amount was increased over the years to the current 8%. So each year you put off claiming Social Security past your full retirement age adds 8% to your payment. Full retirement age varies according to birth year and is 67 for people born in 1960 or later.

Let's say your full retirement age is 67 and your benefit, if started then, would be \$1,000 a month. Starting at 62 would shrink the benefit to \$700, while waiting until 70 to begin would boost the amount to \$1,240.

The longer you live, the more you can benefit from a delayed filing" and the higher your income, the longer you're likely to live. In fact, most of the gains in life expectancy in recent years have accrued to higher-income people.

Between 2001 and 2014, for example, life expectancy rose by more than two years for men and nearly three years for women with incomes in the top 5%, according to a study for the Social Security Administration. During the same period, life expectancies for those in the bottom 5% of incomes rose a little less than four months for men and about two weeks for women.

How benefits could change to be fairer

To restore actuarial fairness, the penalty for early filing should be lower, Munnell says. Someone who retires at 62 instead of 67 should get 22.5% less, rather than 30% less. Similarly, the bonus for waiting should be reduced to just below 7% per year.

'The way it's set up now, people will get 124% of their full benefit if they wait till 70 and they really should only get 120%,' Munnell says.

Obviously, Social Security has bigger problems. Once its trust fund is depleted, as projected in 15 years or so, the system will be able to pay only 79% of promised benefits in 2035. That proportion is estimated to drop to 73% by 2094.

When Congress finally gets around to fixing the system, Munnell says, it should consider making the payouts more fair.

'I think there'll be some grand bargain on Social Security at some point because I don't think anybody's really going to allow benefits to be cut 25%,' Munnell says. 'This [actuarial fairness] probably should be put on the agenda.' Liz Weston, www.goerie.com, August 20, 2020.

11. TAX MISTAKES IN 2020 THAT COULD RUIN YOUR RETIREMENT:

Assuming you still have some form of income, tax planning does not end once you retire. The Internal Revenue Service (IRS) will always expect you to pay taxes on your retirement income. For those who are well prepared to maintain their standard of living in retirement, many find their tax bills are similar to when they were working full time. Some of you may even find you are paying more in taxes; this is common for retiring business owners.

As the saying goes, nothing is certain except death and taxes. How can you make the most of your retirement investments and keep more of your hard-earned retirement income from getting sucked up by taxes? First, take the time to do the necessary tax planning to avoid the following retirement income tax mistakes that can drastically reduce your financial security as you age. Making tax-smart moves can help you get the absolute maximum enjoyment from your retirement income. Ignoring these retirement tax mistakes could lead to both paying more in taxes and running out of money earlier than necessary.

Retirement Tax Mistake #1: Assuming Your Taxes Will Be Lower in Retirement

Even if they were able to live tax-free, most Americans are not prepared financially to maintain their standard of living in retirement. Still, many assume their taxes will be lower once they leave the workforce. Those who do end up paying fewer taxes in retirement often do so by simply having a smaller retirement income, which is not likely the dream retirement.

After suffering through nearly four years of the Trump Presidency, we are in the midst of a global pandemic, and the national debt has skyrocketed. Tens of millions of Americans are out of work. Thousands of baby-boomers are reaching retirement age, leaving the workforce, and moving onto rolls of government programs like Social Security and Medicare. We have known for decades that changes will need to be made to keep these expensive government programs solvent. It is hard to see how that will happen without taxes being raised at some point in the future. As a financial planner, I know that cutting benefits would be untenable, politically, and devastating for the millions of retirees who rely on Social Security to meet their basic needs.

On a brighter note, Americans have saved trillions of dollars into tax-deferred retirement accounts like a 401(k) or IRA. Keep in mind that taxes will be due once funds are withdrawn from those accounts. If tax rates increase, you may have similar, or even [higher, tax bills in retirement](#).

Retirement Tax Mistake #2: Not Planning for Taxes on Social Security

Have you ever heard of provisional income? I'm guessing most of you said, "No." Provisional income is what the IRS uses to determine whether or not your [Social Security benefits will be taxed](#). Yes, Social Security income can be subject to taxation from the IRS.

For those with distributions from retirement accounts like an IRA or 401(k), they count as part of your provisional income. These distributions are added to any 1099 forms you receive from your taxable investments and to one-half of your Social Security benefits for the year. If that income totals more than \$34,000 for singles or \$44,000 for a married couple, filing jointly, a whopping 85% of your Social Security benefits will become taxable at your highest marginal tax bracket.

Talk to your financial planner to determine whether you will be above those relatively small retirement-income numbers in retirement. There are a variety of ways to strategically minimize the taxes on your Social Security benefits. Lumping IRA withdrawals into one year and diversifying your retirement savings into taxable and non-taxable accounts are a couple of ways. Higher earners (above \$200,000 per year) may want to check out the [Rich Person Roth IRA for even more tax-free income in retirement](#).

Retirement Tax Mistake #3: Not Contributing to Roth IRAs and Roth 401(k)s While Eligible

The contribution limit for a Roth IRA is just \$6,000, per year, in 2020. For the average American, only saving that amount each year, and only having one type of retirement account, will most likely not be enough savings for retirement. Yes, you read that right. Solely contributing the maximum amount of \$6,000 each year into a Roth IRA will not likely grow enough to help you achieve financial independence. Luckily, there is now a Roth 401(k) option with an annual \$19,500 contribution limit. However, your employer has to offer this option as part of the employee benefits package.

Many of you reading this will likely make too much money to contribute to a Roth IRA. Married couples making more than \$203,000, per year, in 2020 are not eligible to contribute to a Roth IRA at all.

Some of you might be asking, "Why is ignoring a Roth IRA a problem?" The reason is that having both a Roth IRA account and traditional IRA or 401(k) allows you to diversify some of your tax-rate risk in retirement. If you have a big-income year, or taxes are higher in one year, you can pull more money from the Roth (tax-free withdrawals) and less from the 401(k) (taxable withdrawal).

Retirement Tax Mistake #4: Ignoring Taxes All Together

Have you ever looked at a retirement calculator, or projection, and said, “I could live off that amount of retirement income.”? Perhaps you did not realize that the retirement income estimate was before taxes? This problem is easy to fix when you are years away from retirement. When you have already left the workforce, it will be much harder to make up the difference. It is essential to point out that for those with large retirement nest eggs, federal taxes can be as high as 37% (current tax rates for 2020).

Additionally, state taxes can also be high. California’s tax rate is 13.3%. States with lofty tax rates often cause people to ask themselves, [“Should I move from my high-tax state after I retire?”](#)

Retirement Tax Mistake #5: No Strategy to Minimize Taxes

For retirees relying solely on Social Security, there is not much tax planning needed. For everyone else with higher retirement incomes, a penny saved is a penny earned, as the saying goes. Be proactive with tax planning. That will help you keep more of your hard-earned money out of Uncle Sam’s hands. If you need a little push, contact a [Certified Financial Planner](#) who can help you develop a strategy to minimize taxes.

Retirement Tax Mistake #6: Taking Withdrawals from your retirement accounts in the Wrong Order

Throughout this article, we have been talking about putting off taxes as long as possible and how to minimize taxes in retirement. This often leads people to spend down their post-tax investment accounts first, in retirement. This can lead many to feel like they have more money than they do. Without taxes being due on withdrawals, you will take home more money from a post-tax investment account compared to IRA or 401(k) accounts.

You may see your net worth continues to grow even after withdrawals. That has been especially true over the last few years of the bull market. If that has been the case, you could be sitting on a tax time bomb. Once the post-tax money is gone, all your retirement income will be taxable (assuming funds are held in IRA or 401(k) accounts). You will have little to no options to minimize taxes once that happens.

While it is a bit more complicated, most people will benefit from taking some money from accounts like a 401(k) now. Yes, you would pay taxes when you withdraw the money, but the goal would be to minimize taxes over your entire retirement while paying as little as possible on each withdrawal.

Bottom line - Do not forget about taxes when planning for retirement. A little proactive tax

planning will help you earn income in your golden years as efficiently as possible. Also, you want to pay the least amount of taxes as possible so you can keep as much of your hard-earned money as you can. David Rae, Forbes, www.forbes.com, August 23, 2020.

12. IRS - 50,000 SPOUSES TO GET CATCH-UP ECONOMIC IMPACT PAYMENTS:

The Internal Revenue Service will soon send catch-up Economic Impact Payment checks to about 50,000 individuals whose portion of the EIP was diverted to pay their spouse's past-due child support.

These catch-up payments are due to be issued in early-to-mid-September. They will be mailed as checks to any eligible spouse who submitted [Form 8379](#), Injured Spouse Allocation, along with their 2019 federal income tax return, or in some cases, their 2018 return. These spouses do not need to take any action to get their money. The IRS will automatically issue the portion of the EIP that was applied to the other spouse's debt.

The IRS is aware that some individuals did not file a Form 8379, Injured Spouse Allocation, and did not receive their portion of the EIP for the same reason above. These individuals also do not need to take any action and do not need to submit a Form 8379. The IRS does not yet have a timeframe but will automatically issue the portion of the EIP that was applied to the other spouse's debt at a later date.

Affected taxpayers can check the status of their Payment by using the [Get My Payment tool](#), available only on IRS.gov. For more information, see the Receiving My Payment section of the Frequently Asked Questions in the [Economic Payment Information Center on IRS.gov](#). IRS Newswire IR-2020-192, www.irs.gov, August 25, 2020.

13. EARNING SIDE INCOME: IS IT A HOBBY OR A BUSINESS?:

Whether it's something they've been doing for years or something they just started to make extra money, taxpayers must report income earned from hobbies in 2020 on next year's tax return.

What the difference between a hobby and a business? A business operates to make a profit. People engage in a hobby for sport or recreation, not to make a profit.

Here are nine things taxpayers must consider when determining if an activity is a hobby or a business:

- Whether the activity is carried out in a businesslike manner and the taxpayer maintains complete and accurate books and records.

- Whether the time and effort the taxpayer puts into the activity show they intend to make it profitable.
- Whether they depend on income from the activity for their livelihood.
- Whether any losses are due to circumstances beyond the taxpayer's control or are normal for the startup phase of their type of business.
- Whether they change methods of operation to improve profitability.
- Whether the taxpayer and their advisors have the knowledge needed to carry out the activity as a successful business.
- Whether the taxpayer was successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether the taxpayers can expect to make a future profit from the appreciation of the assets used in the activity.

The IRS has many resources to help taxpayers report their income correctly. See the more information section below for additional guidance.

More Information:

[Publication 17](#), Your Federal Income Tax

[Publication 525](#), Taxable and Nontaxable Income

[Publication 535](#), Business Expenses

[Publication 334](#), Tax Guide for Small Business, For Individuals Who Use Schedule C

Share this tip on social media -- #IRSTaxTip: Earning side income: Is it a hobby or a business? <https://go.usa.gov/xfSMK>. IRS Tax Tip-2020-108, www.irs.gov, August 25, 2020.

14. A REAL OR FAKE SAVINGS CLUB?:

Imitation is the greatest form of flattery. It's also the greatest form of "scammy." That's why scammers are imitating a type of informal savings club known as a "sou sou" or "susu" to trick people into joining what amounts to an illegal pyramid scheme.

If you've never heard of the term "sou sou," a quick internet search will tell you that it's a rotating savings club with historic roots in West Africa and the Caribbean. It's a savings arrangement between a small group of trusted people – usually family and friends – who regularly pay a fixed amount into a common fund and take turns getting paid out. In a sou sou, you don't earn interest, never get out more than you paid in, and there's no reward for recruiting people to join. This way of saving is based on the honor system, and it is not without risk.

So, it's not surprising that scammers are pitching fake sou sou savings clubs and opportunities like "[The Circle Game](#)," "[Blessing Loom](#)," "[Money Board](#)". These kinds of illegal pyramid schemes are the exact opposite of a sou sou: They promise you'll make more money than you put in and depend on recruiting new people to keep money flowing into the fund. Like all other pyramids, once they run out of new recruits to bring into the club, the money dries up, leaving everyone waiting for their pay out holding the bag.

If you see a post or get a direct message on Instagram, Facebook, or other social media about one of these clubs, think twice and remember the warning signs. If the offer comes from a friend or family member, tell them about this scheme. And, if you've if you've been contacted to join a fake sou sou, please tell us: [ftc.gov/complaint](https://www.ftc.gov/complaint). Your report can help us protect others from a scam. Karen Hobbs, Assistant Director, Division of Consumer and Business Education, FTC, www.ftc.gov, August 10, 2020.

15. FOR THOSE WHO LOVE WORDS (LOGOPHILES):

Alternative facts are aversion of the truth.

16. EVER WONDER?:

Why is the man who invests all your money called a broker?

17. INSPIRATIONAL QUOTE:

Creativity is intelligence having fun." - *Albert Einstein*

18. TODAY IN HISTORY:

On this day in 2008, Barack Obama becomes the first African-American to be nominated by a major political party for President of the United States.

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