



CYPEN & CYPEN NEWSLETTER for OCTOBER 8, 2020

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

1. CORPORATE PENSION FUNDING SHOWS MIXED RESULTS IN SEPTEMBER:

The average funding ratios for corporate pension plans decreased slightly in September according to reports from Legal & General Investment Management America, Wilshire Associates and Northern Trust Asset Management, while a report from Mercer estimated that ratios held steady over the month.

LGIMA found the funding ratio of a typical corporate pension plan decreased by 1.2 percentage points to 77.9% at the end of September from 79.1% at the end of August,

primarily driven by poor equities performance. LGIMA estimated U.S. Treasury rates declined by 2 basis points while credit spreads widened by 6 basis points, resulting in the average discount rate increasing by 4 basis points.

Liabilities for the typical plan decreased by roughly 0.4%, while plan assets with a traditional 60% equity/40% bond asset allocation decreased by roughly 1.9%, LGIMA said.

As measured by Wilshire, the aggregate funding ratio for U.S. corporate plans decreased by 1.1 percentage points to 83.1% as of Sept. 30 from Aug. 31. The monthly change in funding resulted from a 1.7-percentage-point decrease in asset values partially offset by a 0.4-percentage-point decrease in liability values.

"September's decrease in funded ratio was primarily driven by negative returns for most asset classes, especially U.S. equity, which snapped five consecutive monthly increases," said Ned McGuire, managing director and a member of the investment management and research group of Wilshire Associates, in a news release announcing the results. "September marks the sixth funded ratio decline within the trailing 12 months and the fifth this year."

According to Northern Trust, the average funding ratio for S&P 500 companies with defined benefit plans fell to 82.5% in September from 83.5% the month before. Global equity market returns were down about 3.2% during the month, while the discount rate increased to 2.27% as of Sept. 30 from 2.23% as of Aug. 31, leading to lower liabilities.

"Funded ratios are still 4% lower since the beginning of the year," said Jessica K. Hart, senior vice president and head of the outsourced CIO retirement practice at Northern Trust Asset Management, in a news release. "Liability increase has exceeded asset growth as discount rates declined by 57 basis points year-to-date. As we expect rates to stay low and equity returns to be modest going forward, further improvement in funded ratio may take some time."

Meanwhile, Mercer said the estimated aggregate funding level of pension plans sponsored by S&P 1500 companies remained level at 83% in the month ended Sept. 30 because of a decrease in equity markets offset by an increase in discount rates to 2.53% from 2.43%.

The estimated aggregate deficit of pension fund assets of S&P 1500 companies totaled \$433 billion as of Sept. 30, unchanged from the end of August.

"Funded status was flat month over month as equity market declines were offset by a rise in

interest rates," said Scott Jarboe, a partner in Mercer's wealth business, in a separate news release. "We saw the S&P 500 pull back after reaching an all-time high in August, and interest rates rose slightly during the month with the Fed indicating they would keep short-term rates low for the foreseeable future. Plan sponsors should review 2021 budgets and understand the sensitivity of pension liability and expense in light of the persisting low-rate environment and potential for a pullback in equity markets as we approach the election and end of the year." James Comtois, *Pension & Investments*, www.pionline.com, October 6, 2020.

2. NEPC - THIS WEEK IN PENSIONS:

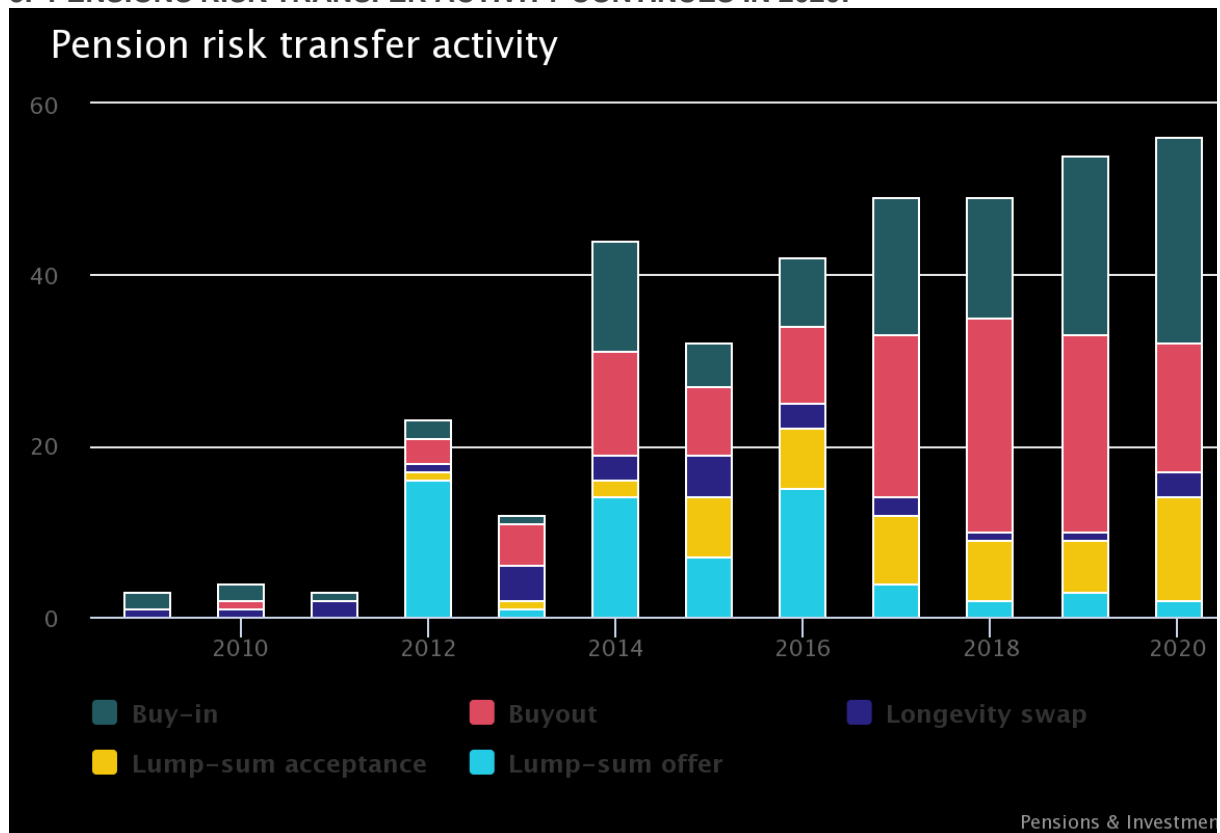
Top stories from this week:

- [Texas Has a Problem With Its State Employee Pension Plan](#) by Anthony Randazzo and Jonathan Moody. In this blog post on Medium, Randazzo and Moody of the [Equable Institute](#) write about a shortfall facing the Employees Retirement System of Texas (ERS). Their analysis includes several options in addressing this shortfall that would be detrimental to public workers' retirement security, such as switching newly hired employees to a defined-contribution plan like a 401(k). This measure would harm both employers and employees, as 401(k) plans are more expensive to implement than defined-benefit plans and 401(k)s do not offer the same amount of security in retirement. Furthermore, the authors note that "for a state the size of Texas with its relative wealth and capacity to raise revenue, it is far from obvious that Texas has reached a point where benefit cuts are necessary." Lawmakers have constantly underfunded the system over time, and they can address this funding gap by closing corporate tax breaks and loopholes. [A report](#) from Good Jobs First found that corporate subsidies and tax breaks cost the state of Texas more than \$4 billion in 2019, which would've been more than enough to fully fund the system's pension obligation in the same year.
- [Even the most diligent of savers at risk for not saving enough for retirement: report](#) by Amy Novotney. In this article for McKnight's Senior Living, Novotney writes about a [new report](#) from the National Institute on Retirement Security (NIRS) which shows how costs for everyday necessities are rapidly increasing for older adults. The report found that housing and healthcare costs, in particular, have risen dramatically. Also, in 2016, almost half of seniors experienced mortgage debt, and nursing home costs exceeded \$300,000 if a retiree lives in one for three years or more. This illustrates why protecting the hard-earned pensions of public employees is so important, as they can help older adults afford their basic needs in retirement.
- [Why a Massive Retirement Rush Is Underway](#) by Jeff Bush. Bush writes in this article

for Kiplinger about how the coronavirus pandemic is pushing older workers into early retirement. Many workers are retiring early due to fears of contracting the coronavirus on the job, which so far has disproportionately impacted older adults. The pandemic-induced economic crisis is another reason why more workers are retiring earlier than anticipated, as “42% of older workers who lost their jobs say they’ve retired,” Bush writes. This can negatively impact their retirement security, as those who retire early will save less for retirement and their potential Social Security benefits will also be lower when they collect them. Policymakers can help older public employees when they retire by maintaining their defined-benefit pensions, as they provide public employees with a safe, reliable retirement that does not put all the risk on the individual.

Tristan Fitzpatrick, National Public Pension Coalition, <https://protectpensions.org>, October 2, 2020.

3. PENSIONS RISK TRANSFER ACTIVITY CONTINUES IN 2020:



Pensions & Investments has reported 56 pension risk transfers in 2020. This is already a yearly record. Activity was led by 24 buy-ins, also a yearly record. Buyouts and lump-sum transfers remain strong in 2020. Activity was split almost evenly by the two main markets of the U.S. and U.K. The U.S. represented all lump-sum activity. Aaron M. Cunningham, *Pension & Investments*, www.pionline.com, September 30, 2020.

4. CHICAGO TEACHERS EXECUTIVE DIRECTOR TO LEAVE OCT. 14:

Charles A. Burbridge, executive director of the Chicago Public School Teachers' Pension & Retirement Fund, will leave the fund Oct. 14.

Mr. Burbridge submitted his resignation to the \$11.1 billion pension fund Sept. 30, confirmed Angela Miller-May, chief investment officer, in an email.

Mr. Burbridge is leaving to become finance director of the DeKalb County School District in Georgia, said a news release from the pension fund Oct. 2. He joined the pension fund in 2015.

The pension fund's board will meet Oct. 15 for a special meeting to discuss filling the vacancy and transition plans, the news release said. Rob Kozlowski, *Pension & Investments*, www.pionline.com, October 5, 2020.

5. DO POLITICS BELONG IN RETIREMENT PLANNING?:

In a sharply polarized environment, Americans saving for retirement are increasingly concerned about politics -- those of their financial advisers.

"I'll get a phone call from one client thinking the world is falling apart, and then another thinking it's the best time to get into the market -- in the same day," said Robert Schmansky, founder of Clear Financial Advisors in Livonia, Mich.

It has been a year of tumult, because of not only the pandemic but also protests over racial injustice, devastating wildfires and a pitched -- sometimes incendiary -- campaign season. A June survey by the Pew Research Center confirmed the political divide over the virus: More than 60 percent of Republicans said they believed the worst of the pandemic was over, while one in four Democrats said the same.

Those kinds of issues are increasingly coming up in conversations with clients and prospects, according to Michael Kayes, managing director of investments at Exencial Wealth Advisors

near Charlotte, N.C.

“I got one the other day that said, ‘If your firm is against Trump, I don’t want to hire you,’” he said. “And I’ve got some that have asked the question the opposite way: ‘If your firm is pro-Trump, I don’t want to hire you.’”

While many retirement advisers would prefer to avoid the topic, many acknowledge that political opinions are almost unavoidable these days. “I do think they’re probably trying to find out more about what mine are,” Mr. Schmansky said.

Some advisers lean into the red-versus-blue question. “I’m well aware there must be people out there that looked into me, saw the politics and decided not to invest,” said David Bahnsen, partner in a wealth management firm in Newport Beach, Calif., who has written for The National Review and other conservative media outlets.

“We built our business around the idea that we have a take, that we have a viewpoint,” he said, adding that he gets positive feedback from left-leaning clients who say they value a different perspective.

That said, Mr. Bahnsen does attribute one recent departure to the political divide that has sprung up around the pandemic. “We had a client who expressed that my posture on Covid is the reason they left; it was political to them,” he said, adding that the client believed that the country was opening too soon and that economic catastrophe would follow.

Aside from the coronavirus, the growing national conversation around racial injustice is changing how people shop for a retirement planner.

“Whenever a prospective client reaches out to me, I always ask how they found me, and what I’m getting told is they’re especially doing searches on trying to find a Black financial adviser,” said Zaneilia Harris, president of Harris & Harris Wealth Management Group in the Maryland suburbs of Washington.

“I think the mere fact that they’re seeking out a Black adviser is political,” she said, adding that she observed an increase in prospective clients contacting her beginning in June. “They want to work with someone who looks like them, who understands their specific situation and who can identify with them, their life and their values.”

Angela Randolph, founder of an accounting firm in Houston, wanted to make sure her

investments would both sustain her and help her support members of an extended family through her retirement years.

Ms. Randolph, 48, became a client of Ms. Harris's after an off-putting experience with a national advisory firm left her seeking more personalized service. "I kind of really liked the fact that she was a woman, a Black woman just like me and a small-business owner," she said. "In choosing the next person I wanted to work with, it was important to me that they're able to relate to my situation, to my history, my cultural environment."

It's not unusual for people's political affiliation to creep into their perception of their own personal financial security -- public opinion polls show that people who identify with a political party are more optimistic about the nation's economic outlook when that party is in power -- but experts say conflating the two can be risky.

Retirement savers can fall into a "wealth effect" trap, meaning they take their cues from headline numbers like the performance of the Dow Jones industrial average rather than the returns on their own portfolio. The risk is that investors could be too cavalier when stocks are soaring, then be unprepared when they subsequently drop.

The flip side of that tendency is alive and well, too. Often, advisers say, they function as a sort of de facto therapist, urging clients to look at the big picture and not to panic.

"People get scared and say, 'This is different'; people say, 'This is so bad for the stock market, I feel like I have to get out,'" said Mitchell Goldberg, president of ClientFirst Strategy in Melville, N.Y. "You have to remind somebody you're in this for the long term, you've already made an asset allocation," he said. Unwinding market positions in haste can lead to losses, Mr. Goldberg said.

Retirement-planning experts say it's less important that you have the same 2020 campaign bumper sticker as your adviser than that the adviser be able to articulate why and how events in Washington -- tax legislation, regulatory changes, monetary policy and the like -- influence his or her investing strategy.

"In my practice, I talk about how changing political winds can impact the economy or the markets," Mr. Kayes said. "In our business, you have to see all sides -- you don't want to put blinders on."

Tim Maurer, director of adviser development at the St. Louis-based Buckingham Wealth Partners, said dealing with mounting worries -- about the pandemic, the economy and the future more broadly -- was increasingly just part of the job for retirement planners.

"We train advisers to navigate discussions with clients that are emotionally driven -- and that's a lot of them," he said, especially for people who expect to retire soon.

Ducking the question isn't the answer, advisers say. "There are some advisers that don't want to talk about politics because they want to be middle of the road, and then what happens is, in some instances, they're alienating some of their clients who feel it's really important to talk about," said David Frisch, president of Frisch Financial Group in Melville.

"At the end of the day, advisers cannot dismiss it," he said. "If it's important to the client, it's important to the adviser that they hear an opinion that might differ from their own."

If you're tempted to let politics be your guide

Financial advisers discourage people from letting political news cycles influence their retirement planning strategies. Political winds can shift in a short period, sometimes drastically, whereas saving and investing for retirement are a process that takes place over decades.

Investors worried about their adviser's political outlook can learn more -- and hopefully set their mind at ease -- with these suggestions.

- If you think politics factor into your adviser's strategy for your nest egg, ask for explanations. A good retirement planner will be able to articulate how the actions taken by politicians can -- and can't -- affect your portfolio.
- When emotions are running high, resist the urge to dismiss your adviser on the spot -- a knee-jerk reaction when it comes to your retirement security isn't a great idea. Don't do anything that's not part of a long-term investing strategy.
- Talk to your adviser about how specific economic policies affect your portfolio. Politics might be about people, but your investment decisions should be informed by the ramifications of, say, bond-buying or tax-code changes.
- Try to keep an open mind. A different viewpoint from one you hold might give you valuable insight for your long-term savings goals.
- If you want to integrate your political views more directly into your retirement planning, some advisers suggest working with someone who has knowledge and expertise in

E.S.G. (environmental, social and governance) investing strategy.

Martha C. White, *New York Times*, www.nytimes.com, October 2, 2020.

6. 'IT WAS THE LESSER OF TWO EVILS' - WORKERS IN THEIR 50S AND 60S ARE RETIRING EARLY BECAUSE OF THE CORONAVIRUS PANDEMIC:

With just two years until he turns 65, Doug Sheehan was looking forward to a comfortable retirement, dreaming of relaxing evenings spent at restaurants around the Bay Area, splitting bottles of wine with friends.

Then coronavirus hit, and the 63-year-old's plans, like those of millions of others, fell apart. The pandemic has derailed the finances and careers of individuals of all ages, but for many workers in their 50s and 60s like Sheehan, it has also upended their retirement security.

Worried about his own health, as well as the health of his wife and 42-year-old son, who has an autoimmune disorder, Sheehan quit his job as a hotel purchasing manager in March. That disqualified him from collecting unemployment insurance, and, with no other options, Sheehan began taking Social Security two years earlier than he had planned. Visions of a comfortable retirement in the not-so-distant future were replaced with the realities of an under-funded present.

"I didn't want to stop seeing my son," Sheehan says, adding that he helps support him financially. "I didn't want to be exposed in another workplace. I figured the best thing to do was retire. It was the lesser of two evils."

The amount an individual receives from Social Security is reduced if they start collecting it before the "full retirement age," which depends on the year you were born. Sheehan estimates that he has lost hundreds of dollars in potential benefits a month. "I walked away, and it cost me a ton," he says. "We're surviving, but it's not what I expected in retirement."

Sheehan is far from alone. One of the primary reasons people who lost their jobs as a result of the virus are choosing not to look for new work is because they decided to retire early, according to a recent paper from the University of Chicago.

"Early retirement [is] a major force in accounting for the decline in the labor-force participation" in the early months of coronavirus shutdowns, reads the report. "With the high sensitivity of seniors to the Covid-19 virus, this may reflect in part a decision to either leave employment earlier than planned due to higher risks of working or a choice to not look for new employment

and retire after losing their work in the crisis.”

And in fact, older workers and near-retirees are over-represented in frontline professions, like janitors and home health aides, that “expose workers to risk of infection and those who are vulnerable to mass layoffs due to the recession,” according to an [August report](#) from Democrats on the Joint Economic Committee of Congress.

Even those who want to work may have a hard time finding a new job, Alicia Munnell, director for the Center for Retirement Research at Boston College, tells [CNBC Make It](#). Older workers already faced age discrimination in the job market before coronavirus.

The good news is that Baby Boomers like Sheehan don’t have to worry about coronavirus disrupting their Social Security payments, despite the persistent myth that funding will run out soon, says Munnell. It’s younger workers who [might receive smaller benefits payments](#), because there will be less money collected through payroll taxes because of the millions of workers who have been laid off, among other reasons.

“If you’re in your late 50s or early 60s, you’re going to get grandfathered in,” says Munnell. “They would never cut benefits.”

After working continuously for over four decades, Sheehan is thankful to have Social Security as a safety net. But he estimates he could have saved another \$20,000 for his retirement had he worked two more years at his hotel job. That, combined with the higher Social Security checks he planned on, would have yielded him a comfortable living.

Now, he has no idea what will happen next, or when the economy will rebound. He is willing to go back to work, but he doesn’t want to put his family and himself at risk. Trying to plan his finances, or enjoy his retirement with his wife, just isn’t possible with all of the uncertainty.

“If 20 years ago someone had told me I would be worried about not having enough money to survive, I wouldn’t have believed it,” says Sheehan. Now, “I’m not really sure what will happen.” Alicia Adamczyk, CNBC, www.cnbc.com, September 30, 2020.

7. SOCIAL SECURITY’S GOVERNMENT PENSION OFFSET (GPO)-A COMMON SENSE EXPLANATION:

This article deals with the second provision that may limit the amount of Social Security benefit you are eligible to receive if you are a public sector/civil service employee under

(STRS, PERS, CSRS, Railroad Retirement, etc.).

Last month I wrote about the Windfall Elimination Provision (WEP) which is the other limiting provision. Read more about the WEP [here](#).

Like the Windfall Elimination Provision, the reduction in Social Security benefits does not take effect until you start drawing your public sector government pension. Unlike the Windfall Elimination Provision which affects only your own personal Social Security benefit, the Government Pension Offset applies only to spousal, ex-spousal and survivor benefits you may be eligible for.

Enacted in 1977, the Government Pension Offset (GPO) ensures that benefit calculations of public sector government employees who don't pay into Social Security are calculated the same way as workers in the private sector who do pay into Social Security. This provision affects people who have a public sector government pension from employment that did not contribute to Social Security like:

- Federal, State or Local government
- School systems
- Colleges or Universities
- Civil Service Retirement System (CSRS)

Before this provision, many public sector government employees were eligible for their own public sector government pension and full spousal, ex-spousal, or survivor benefits. Initially Social Security benefits were intended for spouses who were financially dependent on the other spouse. Now, many spouses are not financially dependent on their spouse. The GPO prevents spouses, ex-spouses, and survivors from receiving a higher benefit than they would have received if they were totally reliant on their spouses Social Security benefit to receive their benefit.

The GPO reduction in Social Security benefits is 2/3rds of the monthly amount of the public sector government retirement benefit you receive. Of note, if you receive a lump sum payment from a public sector government pension, the lump sum will be converted into a monthly annuity benefit by Social Security. For example, let's assume you and your spouse have both reached your full retirement age for Social Security purposes. That would mean you are between the ages of 66-67. Your public sector government pension is \$3,000/month and you have no Social Security benefit of your own. As a spouse, you are entitled to a spousal benefit of 50% of your spouse's full retirement age Social Security benefit. Assume your spouse's

Social Security full retirement age benefit is \$2,500, so therefore you would be entitled to \$1,250. Since 2/3rds of your public sector government pension is \$2,000 ($\$3,000 \times 66\%$) and is greater than the spousal benefit of \$1,250, the spousal benefit is reduced to zero.

Now let's assume your public sector government pension is \$1,500, then you would be entitled to a \$250 spousal benefit. Here's the math: $\$1,500 \times 66\% = \$1,000$. The Social Security spousal benefit reduced by the GPO of \$1,000 produces a spousal benefit of \$250. From this last example you can see that the full 50% spousal benefit of \$1,250 is made up of \$1,000 from your public sector government pension and \$250 from Social Security.

As you can see from the above example, the GPO can reduce your Social Security spousal benefit to zero. This is different from the WEP on your own Social Security benefit in that the WEP will never reduce your own benefit to zero and there is no 30-year phase out of the GPO like the WEP.

With regards to Social Security survivor benefits in relation to a person who has a public sector government pension, the calculation of the GPO reduction is the same 2/3rds reduction, but survivors need to be aware that as a spouse you may not have qualified for Social Security spousal benefits, but you may qualify for a Social Security survivor benefit. In the above example as a survivor, you would be entitled to a Social Security survivor benefit of \$2,500 before any GPO reduction. The GPO reduction of \$2,000 results in a survivor benefit of \$500. So, don't think that because you didn't qualify for a Social Security spousal benefit, you automatically do not qualify for a Social Security survivor benefit.

Always be proactive and inquire as to what Social Security benefits are available to you. Social Security will not contact you to tell you that you qualify for an additional benefit. I can tell you from experience that there are many widow/widowers out there that are eligible for additional benefits and have just assumed they don't qualify for any. Just taking the additional \$500 monthly survivor benefit above for 15 years amounts to \$90,000. Don't leave money on the table! Tom Hager, Forbes, www.forbes.com, September 30, 2020.

8. REGULAR CONTRIBUTIONS HELP PARTICIPANTS REACH HIGHER 401(K) ACCOUNT BALANCES:

EBRI and ICI say contributions, investment returns and withdrawal or loan activity can potentially influence account balances. Contributions were the top factor increasing balances--adding about \$352 billion a year from 2010 to 2017--while benefits paid, including rollovers, averaged \$346 billion. Investment returns varied year-to-year, according to the report. Returns

had no impact on assets in 2011 and 2015 but boosted assets during the stock market high from 2012 to 2014, and then again in 2016 and 2017.

“Because 401(k) participants tend to continue contributing to their plans year in and year out, contributions follow a relatively steady path from year to year,” says Steven Bass, an economist at ICI and an author of the report. “However, investment returns are dependent on asset markets, particularly stock markets, and so they fluctuate from year to year.”

The study also found trends in different employee groups. For example, a participant's age and tenure had an effect on their consistency and account balance. Consistent participants who were followed between 2010 and 2018, by definition, had at least eight years of tenure in 2018. None had spanned five or fewer years in their role, 10% had more than five to 10 years, 54% had more than 10 to 20 years and 36% had a tenure of over 20 years.

Still, younger participants experienced the largest percent increase in average account balance between year-end 2010 and year-end 2018, according to the study. The average account balance for 401(k) participants in their 30s rose 450.8%. Those who were in their 60s experienced smaller growth at 122.9%. According to Bass, younger individuals and those with less tenure accumulated their balances by regularly contributing to the account, while older participants with a longer tenure were driven more by investment returns. In fact, investment returns generally accounted for most of the change in accounts with larger balances, according to the study.

Additionally, younger participants were more likely to favor equity funds and target-date funds (TDFs), while older participants invested in fixed-income securities such as bond funds, money funds, or guaranteed investment contracts (GICs) and other stable-value funds.

Loan and withdrawal activities also had an impact on 401(k) account balances. The report finds that older participants--those in their 60s--tended to make withdrawals as they reached retirement. Amanda Umpierrez, *PLANSPONSOR*, www.plansponsor.com, October 6, 2020.

9. TOO MUCH GOVERNMENT? OR JUST TOO MANY GOVERNMENTS?:

Efforts to merge municipalities make a lot of sense, particularly in this virus-plagued, cash-poor moment. But they usually don't succeed. Three struggling Illinois towns are about to try it anyway.

Cahokia, a small town in southern Illinois, has a past that its citizens can be proud of. Its

history goes back to 1699, making it the oldest town anywhere in its region, and nearby are priceless Indian mounds and relics that go back a millennium before that. At one time, Cahokia was a territorial capital and one of the most influential communities in the entire state. Its array of venerable buildings includes a 1740 courthouse (still standing in somewhat altered form) that is on the National Register of Historic Places. The mounds are a UNESCO World Heritage Site, one of just 24 in the United States.

It's the present that isn't treating Cahokia so well. Jobs and residents have been slipping away, and it has lost nearly a third of its population in the last 20 years. Its poverty rate is nearly 35 percent. It has one of the highest crime rates in America. Its treasury is badly depleted.

How does a town like that climb out of its hole? The mayor and some of the leading citizens have an idea: They want Cahokia to merge with nearby Centreville and Alorton to form the combined city of Cahokia Heights. This isn't an obvious winner. Alorton is an old aluminum-plant town best known for its hazardous materials site, a dilapidated 400-acre eyesore ringed by nearly a mile of barbed wire. Centreville is poorer than either of the others. Its streets are full of potholes.

Still, proponents of this merger have placed a referendum to approve it on November's ballot. If the measure passes, Cahokia Heights could be a reality as early as next year.

Figuring out just what the merger will accomplish is a bit of a challenge. There have been a fair number of local government merger proposals in the past few decades, most of them presented to voters with a clear premise. In many cases, the idea is to save money by combining services. Those have had a fairly low rate of approval, even when the arguments are plausible. More effective is the pitch that a larger polity will stimulate a new feeling of pride and a sense of local importance. That's how Louisville, Ky., sold its successful merger with surrounding Jefferson County back in 2000.

The Cahokia Heights plan doesn't fit any of the usual categories. Basically, all three towns have horrendous infrastructure issues, including a flooding problem in Centreville that threatens to make it a permanent economic basket case. What Centreville needs most of all, in addition to street repair, is new sewers. What the three towns don't seem to need is multiple governments.

"Right now," Cahokia Mayor Curtis McCall Jr. told a reporter recently, "our communities are

dying." His hope, and the hope of the pro-merger forces allied with him, is that a bigger entity would be better able to obtain help from the county, the state and especially the federal government. Why this would be likely, I'm not exactly sure. The merged town of Cahokia Heights would have a population of about 21,000. That doesn't seem big enough to make much difference. But under the circumstances, it may be worth a try.

I'm not suggesting that Cahokia, Alorton and Centreville are typical American communities. But they reflect the serious fiscal strains most towns of any size are enduring right now. Their merger effort points toward a debate on local consolidation and retrenchment that we ought to be having at this virus-plagued, cash-poor moment.

It's appropriate, in a way, that this debate is taking place in Illinois, because Illinois is the national capital of superfluous government. No one is even sure how many different governments it has. The 2010 census placed the number at about 7,000; the state controller has counted 8,466.

Many of these are special-purpose entities, but they are governments all the same. Illinois has a profusion of park districts, sanitation districts, forest-preserve districts, even districts for mosquito abatement. They are a primary reason property taxes have often ranked second-highest among the 50 states.

But the biggest offender in Illinois is township government. The state has more than 1,400 townships laid over its cities, towns and counties. Some of these townships run school systems, and others have some statutory responsibility for welfare payments or road and bridge maintenance. But mostly they are appendages that serve mainly to provide jobs and compensation for local politicians who, unsurprisingly, want to keep them. Most of the townships have tax assessors, but in many cases they don't assess anything. The county does that.

St. Clair County, where Cahokia, Alorton and Centreville are located, has 21 different townships, including one for Centreville, which overlaps with the city government in a community of fewer than 5,000 people.

It's pretty clear that an area as poor as greater Cahokia can't afford so much government. Combining the three cities would be a small step in the right direction. But a state-level effort to get rid of unnecessary governments would help the Cahokia region and many other areas as well. A series of commissions and studies have looked at this issue over the past generation, and all have come to that conclusion. But, except for a few isolated cases, very

little has been done.

The picture is pretty similar in the nine other states that have townships. In some cases they are functioning governments with broad responsibilities, but just as often they are not. Next to Illinois, New Jersey may be the best example of a state with more governments than it needs. New Jersey has 241 townships in a governmental smorgasbord of 565 municipalities that also includes 254 boroughs, 52 cities, 15 towns and three villages. That's far more local government than exists in California, which has nearly five times as many people.

Governors and good-government groups have been pointing out for half a century that this clumsy patchwork of authority is one reason New Jersey is an expensive state to live in. Nearly 200 of the municipalities have populations of less than 5,000. One municipality in Camden County had, as of a couple of years ago, three households and an annual property tax bill averaging more than \$30,000. A while back, the state Senate president called for a mandate that would force all municipalities under 5,000 to consolidate. That seems unlikely to happen any time soon.

The most conspicuous example of consolidation in New Jersey in recent years occurred in 2013, when Princeton Township and Princeton Borough voted to merge. By most accounts, the move has been a money-saving and bureaucratic success, saving as much as \$3 million a year in administrative costs. "Consolidation has worked," the last mayor of now-defunct Princeton Township said recently. "We need to stop being afraid of it."

But most other localities in the state do seem afraid of it, or at least reluctant to move toward it. A current drive to merge the town of Roxbury with the much smaller Mount Arlington has attracted ferocious local opposition, even though some studies have concluded it would save the towns \$12 million a year in administrative costs and would save residents an average of \$1,000 a year in property taxes. But Mount Arlington doesn't want to become a section of Roxbury. Its citizens say their community would lose its identity.

In general, it's fair to say that fear of lost identity, not documented inefficiency, is the major reason that rationalization of local government has not moved very far in many of the places that appear to need it most.

With one exception: the consolidation of schools and school districts in rural and small-town America. In some ways, it's a puzzling phenomenon, because people in these places are far more attached to their schools than they are to their townships or sanitary districts, or even

their police and fire establishments. A small town can lose its fire department and keep its sense of community intact. When it loses a high school, however, something precious is gone.

And yet it has happened. Let's take Iowa as an example. In 1935, it had 953 high schools. By 2013, it was down to 453. Over that same period, more than 90 percent of its school districts had disappeared. The pain this caused, the feelings of eroded community that it created in much of the state, are more profound than I could possibly express in a few sentences. I have to confess that at this late date, I sometimes wonder myself if it was all worth it. Still, the citizens of Iowa, who ultimately possess the power over these decisions, consented to the obliteration of half of their high schools, along with all the history and tradition and loyalties they carried.

There are a couple of reasons. One is that many of these schools were so small that their continuation was hard to justify in fiscal terms. But a more important reason is that the Iowa citizenry was persuaded that consolidation of schools would bring them something tangible: higher-quality education than a tiny underfunded schoolhouse could provide.

The numbers suggest that they have gotten what they wanted. Iowa consistently ranks among the top 10 states for school quality. Roughly 90 percent of its students who start high school eventually graduate. This wasn't true in 1935. It would be foolish to argue that the state's educational performance is entirely the result of consolidation, but it would be equally foolish to say that consolidation had nothing to do with it.

There's a lesson here for consolidation movements of all sorts, not just those in education. Government can be successfully consolidated -- made more efficient -- when it is clear to ordinary citizens that they will be better off. Iowa did that with its school reforms. Most other consolidation efforts, whether they involve townships or special districts, or cash-strapped village governments, haven't been able to make the case. That doesn't mean they can't. This may be the time for it. Perhaps Cahokia, Alorton and Centreville can help us out. Alan Ehrenhalt, GOVERNING, www.governing.com, October 6, 2020.

10. SOCIAL SECURITY AND OIG ANNOUNCE ADDITIONAL ANTI-FRAUD UNITS:

At Social Security, we are committed to detecting and preventing fraud. Earlier this week, we and our Office of the Inspector General (OIG) announced that four new Cooperative Disability Investigations (CDI) Units opened across the country. CDI Units identify, investigate, and prevent Social Security disability fraud, and are a successful part of the agency's anti-fraud initiative. Four new statewide offices recently opened across the country, in Cheyenne,

Wyoming; Las Vegas, Nevada; Manchester, New Hampshire; and Omaha, Nebraska.

The CDI Program helps ensure the integrity of Federal disability programs by resolving questions of potential fraud before benefits are ever paid. The innovative initiative continues to be successful by bringing together personnel from Social Security, our OIG, State Disability Determination Services, and local law enforcement agencies to investigate and analyze suspicious or questionable Social Security disability claims. CDI Unit efforts assist disability examiners in making informed decisions, ensure payment accuracy, and generate significant taxpayer savings for both Federal and State programs.

The CDI Program consists of 49 units covering 44 states, the District of Columbia, and the U.S. territories. We have opened many units in the last few years as they work together to provide CDI coverage for all 50 states by 2022. Since 1997, the CDIs' efforts have contributed to \$4 billion in projected savings to our programs and \$3 billion in projected savings to other Federal and State programs. You can read the entire press release about our new CDI Units [here](#). Darlynda Bogle, Social Security Administration, www.ssa.gov, October 2, 2020.

11. IRS EXPANDS ENFORCEMENT FOCUS ON ABUSIVE MICRO-CAPTIVE INSURANCE SCHEMES; TAXPAYERS URGED TO CONSULT INDEPENDENT TAX ADVISOR BEFORE OCT. 15 FILING DEADLINE:

With the Oct. 15 deadline quickly approaching, the Internal Revenue Service today encouraged taxpayers to consult an independent tax advisor if they participated in a micro-captive insurance transaction.

The IRS encourages any taxpayer who has continued to engage in an abusive micro-captive insurance transaction to not anticipate being able to settle its transaction with the IRS or Chief Counsel on terms more favorable than previously announced [settlement offers](#) and that any potential future settlement initiative that the IRS may consider will require additional concessions by the taxpayer.

With this in mind, the IRS encourages taxpayers to consult an independent tax advisor if they participated in a micro-captive insurance transaction. These taxpayers should seriously consider exiting the transaction and not reporting deductions associated with abusive micro-captive insurance transactions, like many other taxpayers did who were contacted by the IRS in March and July 2020. For those taxpayers that do not exit the transaction and continue taking such deductions, the IRS will disallow tax benefits from transactions that are determined to be abusive and may also require domestic captives to include premium

payments in income and assert a withholding liability for foreign captives. The IRS will also assert penalties, as appropriate, including the strict liability penalty that applies to transactions that lack economic substance. The IRS Office of Chief Counsel is well prepared to defend these positions in Tax Court.

"The IRS enforcement efforts will continue on these abusive transactions." IRS Commissioner Chuck Rettig said. "Any future settlement terms will only get worse, not better. The IRS has never been better positioned in its quest to eradicate abusive transactions following the stand-up of a dedicated promoter office, a new Fraud Enforcement Office, enhanced service-wide coordination with Criminal Investigation and the Office of Professional Responsibility, and our advanced data analytics and mining capabilities. Taxpayers are strongly encouraged to use this opportunity to put this behind them and get into the compliance."

Abusive micro-captives have been a concern to the IRS for several years. The transactions first appeared on the IRS "Dirty Dozen" list of tax scams in 2014 and remain a priority enforcement issue for the IRS. In 2016, the Department of Treasury and IRS issued [Notice 2016-66 \(PDF\)](#), which identified certain micro-captive transactions as having the potential for tax avoidance and evasion. In March and July 2020, IRS issued letters to taxpayers who participated in a Notice 2016-66 transaction alerting them that IRS enforcement activity in this area will be expanding significantly and providing them with the opportunity to tell the IRS if they've discontinued their participation in this transaction before the IRS initiates examinations. Early responses indicate that a significant number of taxpayers have exited the transaction.

This summer, the IRS issued a new round of section 6112 letters to material advisors who filed with the IRS pursuant to Notice 2016-66. In addition, the IRS has deployed 12 newly formed micro-captive examination teams to substantially increase the examinations of ongoing abusive micro-captive insurance transactions.

Also, as part of IRS's continued focus in this area, the IRS has become aware of variations of the abusive micro-captive insurance transactions. An example of one of these variations is a potentially abusive captive insurance arrangement that uses offshore captive insurance companies domiciled in Puerto Rico, and elsewhere, as opposed to section 831(b) captives. This and other variations appear to be designed and marketed with the express intent of avoiding reporting under Notice 2016-66 and yet perpetuating in some cases the same or similar abusive elements as abusive micro-captive insurance transactions. The IRS is aware of these abusive transactions and is actively working to counter their

proliferation. IRS Newswire, IR-2020-226, www.irs.gov, October 1, 2020.

12. TERMS TO HELP TAXPAYERS BETTER UNDERSTAND INDIVIDUAL RETIREMENT ARRANGEMENTS:

Many taxpayers may have heard of Individual Retirement Arrangements, or IRAs, but some don't know how IRAs help them save for retirement.

People can set up an IRA with a bank or other financial institution, a life insurance company, mutual fund or stockbroker. Here's a list of basic terms to help people better understand their IRA options.

- **Contribution.** The money that someone puts into their IRA. There are annual limits to contributions depending on their age and the type of IRA.
- **Distribution.** The amount that someone withdraws from their IRA.
- **Required distribution.** There are requirements for withdrawing from an IRA:
 - Someone generally must start taking withdrawals from their IRA when they reach age 70½.
 - Per the 2019 SECURE Act, if a person's 70th birthday is on or after July 1, 2019, they do not have to take withdrawals until age 72.
 - Special distribution rules apply for IRA beneficiaries.
- **Traditional IRA.** An IRA where contributions may be tax-deductible. Generally, the amounts in a traditional IRA are not taxed until they are withdrawn.
- **Roth IRA.** This type of IRA that is subject to the same rules as a traditional IRA but with certain exceptions:
 - A taxpayer cannot deduct contributions to a Roth IRA.
 - For some situations, qualified distributions are tax-free.
 - Roth IRAs do not require withdrawals until after the death of the owner.
- **Savings Incentive Match Plan for Employees.** This is commonly known as a SIMPLE IRA. Employees and employers may contribute to traditional IRAs set up for employees. It may work well as a start-up retirement savings plan for small employers.
- **Simplified Employee Pension.** This is known as a SEP-IRA. An employer can make contributions toward their own retirement and their employees' retirement. The employee owns and controls a SEP.
- **Rollover IRA.** This is when the IRA owner receives a payment from their retirement plan and deposits it into a different IRA within 60 days.

More Information:

- [Publication 560, Retirement Plans for Small Business](#)
- [Traditional and Roth IRAs Comparison Chart](#)
- [Publication 590-A, Contributions to Individual Retirement Arrangements](#)
- [Publication 590-B, Distributions from Individual Retirement Arrangements](#)
- Retirement: Pensions, IRAs, Social Security
- [Topic No. 412 Lump-Sum Distributions](#)
- [Topic No. 557 Additional Tax on Early Distributions from Traditional and Roth IRAs](#)
- [Topic No. 413 Rollovers from Retirement Plans](#)
- [Topic No. 451 Individual Retirement Arrangements](#)

Share this tip on social media -- #IRSTaxTip: Terms to help taxpayers better understand Individual Retirement Arrangements. <https://go.usa.gov/xGfuE>. IRS Tax Tips, Tax Tip 2020-129, www.irs.gov, September 29, 2020.

13. FOR THOSE WHO LOVE WORDS:

There was a big paddle sale at the boat store. It was quite an oar deal.

14. EVER WONDER?:

Why do they sterilize the needle for lethal injections?

15. INSPIRATIONAL QUOTE:

"If you are not willing to risk the usual, you will have to settle for the ordinary." - Jim Rohn

16. TODAY IN HISTORY:

On this day in 2004, Kenyan Wangari Maathai is the first African woman to receive the Nobel Peace Prize for "her contribution to sustainable development, democracy and peace".

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