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

1. PUBLIC PLAN FUNDING NOT SUCCUMBING TO VIRUS, RESEARCH FINDS: Despite stocks plummeting in March when the COVID-19 pandemic was accelerating, most large public plans with heavy exposures to U.S. equities experienced single-digit returns for the fiscal year ended June 30, thanks to markets rebounding in April.

"It looked like we were on pace for double-digit losses. For many public pension systems, given their underfunded statuses and negative cash flow, those double-digit losses would have been severe," said Thomas Aaron, a vice president and senior analyst at Moody's Investors Service Inc., New York. "So, a market rebound was very welcome."

Still, returns were largely below assumed rates of return for public plans. The median

one-year return as of June 30 of the 36 plans tracked by *Pensions & Investments* through Sept. 2 was 3.14%. Public defined benefit plans in the Wilshire Trust Universe Comparison Service posted a median return of 3.2% for the year ended June 30. For large plans with more than $1 billion in assets, the median return was 2.37%.

Only two plans tracked posted assumed rates of return in the typical 6% to 7.5% range for these funds: the $46.6 billion Nevada Public Employees' Retirement System, Carson City, which returned 7.2% for the fiscal year; and the $916 million Merced County (Calif.) Employees' Retirement Association, 6.8%.

Although the median return for large public plans was lower than the previous two years -- the median return was 6.5% for fiscal year 2019 and 8.9% the year before, according to *P&I* data -- Mr. Aaron said it could have been far worse had markets not bounced back and stabilized.

"It was a very volatile fiscal year," Mr. Aaron added. "Most systems scored returns in the low single digits, which is still quite positive, and welcome compared to where we were at end of March."

According to a report from Moody's published March 24, U.S. public plans were on pace for an average investment loss of about 21% for the fiscal year ended June 30.

On March 23, the S&P 500 was down 30.43% from the end of 2019. But stocks have since bounced back, as the S&P 500 rebounded 39.31% through June 30 from March 23.

Longer term, the plans' annualized returns ranged from 3.4% to 8.1% for the three-year period and 4.4% to 7.7% for five years. Median annualized returns for the respective periods were 6.1% and 6%. For the 10 years ended June 30, *P&I*'s return tracker showed a median annualized return of 8.3%.

Nevada PERS not only posted the highest one-year return that *P&I* reported, but also the highest three- and five-year annualized returns, at 8.1% and 7.7%, respectively, and the second-highest 10-year return at 9.6%.

Stephen Edmundson, investment officer for the pension fund, said in an email that its "portfolio benefited from our emphasis on high-quality liquid assets. Specifically, our allocation to large-cap U.S. stocks and Treasuries were the primary driver of our fiscal year return."

Mr. Edmundson added that the portfolio's "high degree of liquidity" enabled the plan "to implement a disciplined rebalancing program."

Even Mr. Aaron from Moody's cited Nevada's strong performance, noting that the plan benefited from "very good market timing moving out of equities before the downturn and sitting on proceeds in Treasuries, which let them go back in" when prices were low.

After being overweight public equities in 2019, Nevada PERS sold $2 billion in U.S. stocks at the end of December and rebalanced those assets into Treasuries. Then, equities sold off sharply in the first quarter of 2020 and Treasuries rallied as interest rates fell.

The Nevada plan then rebalanced $2.6 billion back into equities during the last two weeks of March "and risk assets subsequently rallied through the end of the fiscal year," Mr. Edmundson said.

Another advantage that Nevada PERS had is that the bulk of its portfolio (88%) is invested in passive strategies, with the remaining 12% split evenly between private real estate and private equity.

For the fiscal year, plans that were more diversified tended to see lower returns, according to David Lindberg, a Pittsburgh-based managing director at Wilshire Associates Inc. Larger plans with higher allocations to alternatives underperformed compared with the smaller plans that adhered more closely to a traditional 60% equities/40% bonds allocation, Mr. Lindberg said.

This is because plans with higher allocations to alternatives and private equity didn't rebound as quickly, since many alternatives assets weren't marked to market.

In addition, Mr. Lindberg added that larger plans are in general more diversified than smaller plans, so even in the public market, larger plans might have had less in U.S. equities than their smaller counterparts. "The classic 60/40 portfolio was a dominant return provider over the one-year period," he added.

Of the four plans tracked that posted net losses for the fiscal year ended June 30, San Bernardino County (Calif.) Employees' Retirement Association reported the biggest loss, returning -3.1%.

"SBCERA has a long-term investment strategy and we've built an investment portfolio designed to generate positive returns over decades -- rather than days, weeks, or

months," said Olivia Applegate, spokeswoman for the $10.1 billion pension fund, in an email. "We have a meaningful allocation to credit and while we've seen a recovery from March lows, it has not been as dramatic as the stock market recovery."

SBCERA, which reported a 10-year annualized return of 7.4%, had an actual allocation of 14.8% to U.S. fixed income and 14.5% to global fixed income as of June 30. Ms. Applegate added that "while pricing has not recovered to its prior levels, the defaults on our portfolio are well below expectations. As a result, we expect to recover significant value as our bonds mature or are refinanced."

The three other plans that posted negative returns were the $14.3 billion New Mexico Public Employees Retirement Association, Santa Fe, which returned -1.5% for the fiscal year ended June 30; the $12.8 billion New Mexico Educational Retirement Board, Santa Fe, -0.97%; and the $3.2 billion Santa Barbara County (Calif.) Employees' Retirement System, -0.12%.

In terms of prospects for the current fiscal year, Messrs. Lindberg and Aaron said they don't see plans shifting away from equities and alternatives anytime soon.

"There's always a lot of talk about it as retirement system boards have allocation meetings and consider their return targets and risk appetites, but I don't think that's translated to an observable shift at this time," Mr. Aaron said. "Most plans have return targets of 7%, so in a persistent low-interest-rate environment, they're forced to reach for yield in equities and alternatives. I don't think that's going to shift."

Meanwhile, Wilshire's Mr. Lindberg said the challenge he sees is that, with interest rates near zero, it will be difficult for investment-grade fixed income to provide the balance needed against riskier assets such as U.S. equities and alternatives if and when there are periods of market sell-offs. James Comtois, *Pension & Investments*, www.pionline.com, September 7, 2020.

2. PUBLIC PENSIONS' NEW INFLATION DILEMMA:
To signal its intent to let the economy run a wee bit "hot" after the recession's end, seeking to restore full employment, the Federal Reserve has announced that it will fiddle with its inflation targets. It now calculates its trigger points over long periods, so it won't hit the brakes prematurely at the first sign of inflation. Meanwhile, the Fed has also crammed interest rates down by sopping up trillions of recent years' new deficit-funding U.S. Treasury bonds, which monetary mavens expect to later cause future inflation, perhaps toward the end of this decade.

As a result, there's a new problem on the horizon for public pensions, one that will call for some thoughtful reassessments of the always fraught assumptions that underlie their funding structures.

The problem begins with bonds. One important consequence of these Fed actions is that the "real" yields (net of inflation) on Treasury Inflation-Protected Securities are now negative, ranging from minus 0.3 percent to minus 1.3 percent depending on when they mature. This has profound importance for pension funds. It means that today there is no way to secure inflation protection from risk-free government bonds without giving up principal. As a result, riskier assets like stocks and real estate may no longer provide a "free lunch" to protect retirees from future inflation while also reliably providing sufficient investment returns to fund the pensions.

When I began my career in public finance decades ago, a rough rule of thumb was that historical inflation rates over 50 years were 3 percent, while stocks yielded 10 percent and bonds returned 5 percent. So a diversified 60/40 portfolio of stocks and bonds was thus expected to return 8 percent before inflation and 5 percent net of inflation.

Let's fast-forward to today. Inflation expectations are now much lower than 3 percent, and the Fed has restated its 2 percent target. But high-quality bonds -- not just the risk-free ones -- no longer yield enough income to amply exceed even that level of inflation. So have public pension systems' portfolio investment-return expectations adjusted appropriately? And what are the actuarial implications for the retired-and-retiring baby-boom generation vs. the younger workers who joined these plans more recently?

Amid the rampant inflation of the 1970s, many public pension plans committed themselves to providing cost-of-living allowances to retirees. But the ground has shifted beneath us, and in today's market environment long-held plan-design assumptions no longer apply. Public employers and prudent public plan fiduciaries should schedule a "21st Century Inflation Chat" with their actuaries and consultants. It would help to educate employees, retirees and other stakeholders about the new drought parching their communal COLA money tree.

A good place to start is with the pension plans' investment and inflation assumptions. The most authoritative, highly respected source of data on this topic is the National Association of State Retirement Administrators. NASRA's annual Public Fund Survey is diligently compiled by the forthright Keith Brainard. The most relevant data from the latest NASRA survey is contained in Figure 2 from its accompanying issue brief. The data, displayed

here, tracks the averages for public pensions' investment and inflation assumptions from 2002 to 2018:

- Between 2002 and 2018, pension funds reduced their composite annual investment-return expectations by 83 basis points (0.83 percent), from 8.05 to 7.22 percent. This is widely hailed as a movement to realism, although it mostly reflects the steep decline in bond yields.
- Inflation expectations built into the pension plans' actuarial calculations have declined even more sharply, by 116 basis points, from 3.84 to 2.68 percent per annum. (Note that, actuarially, lower actual inflation would beneficially reduce the plans' future baby-boomer COLA liabilities.)
- The plans' average assumed annual real rate of return (net of inflation) has thus increased over the past decade, by 33 basis points, from 4.21 to 4.54 percent. That uptrend seems dubious.

Stocks and popular "hard assets" like gold now trade at premium prices. Bond yields are the lowest in our lifetimes, pushing their market prices to record levels that will suffer badly if inflation returns. So the central question that pension decision-makers must ask themselves is whether it is now realistic to expect that the real rates of return on pension portfolios will remain persistently higher for decades to come, and particularly if monetary inflation erupts.

The second question, and perhaps the most directly relevant to their inflation enigma, is whether public pension plans can continue to rely on the backstop that financial markets had historically given them to cover the COLAs baked into the benefits payable to retirees.

I fully realize that this stirs up a hornet's nest that most folks in the pension world would much prefer to sidestep. My point here is not to deprive current retirees of benefits they were promised or to take away benefits already earned by current employees. But it's time for honest, independent assessments of the long-held assumptions that investment returns can be sufficient to fund COLAs indefinitely while also paying off today's combined trillion-dollar unfunded liabilities.

This affects different generations differently. One could argue that baby boomers' pension and COLA benefits are now actually running at a lower rate of increase than the actuaries had once assumed. (The problem with boomers is not their COLAs; it's their heretofore-underfunded benefits.) Conversely, the cost of COLAs for younger workers could break the bank in future decades if monetary inflation resurfaces. Worse, the 2030s and '40s markets could mirror the 1970s, crushing pension fund portfolios.

In the private sector, purchasers of retirement annuities have a choice: They can buy standard policies that pay a non-escalating benefit, or they can pay more to secure future inflation adjustments. Many public pensions, on the other hand, have installed caps on their COLAs to avoid runaway costs, but these caps have a perverse way of being lifted when elderly and disabled retirees swarm televised public hearings. One worthwhile reform would be to give non-vested younger employees and new hires a plan option to secure supplemental pension inflation protection at their own expense through a higher corresponding employee-contribution rate. This better aligns costs with benefits, and also inhibits unfunded increases.

A few states link COLA caps to the plans' funding progress. This squarely addresses the issue of future investment shortfalls: They are shared by all parties, not just employers. It's a logical concept but very difficult to implement, given the entrenched interests in pension politics.

This is an uncomfortable discussion, and probably an unwelcome topic in many circles. But the problem is real. Like the coronavirus, it will not fade away just because folks choose to deny, dismiss or ignore it. Girard Miller, *Governing*, www.governing.com, September 15, 2020.

3. SIX YEARS AFTER DAY REPORTING, PENSION PROBLEM PERSISTS:
In 2014, The Day published a special report documenting the deep hole in which Connecticut found itself, burdened by pension systems for state workers and teachers that were among the country's most underfunded. Six years later it would be great to report that the situation has vastly improved. It hasn't. There has been some progress, but Connecticut still faces choosing from among a set of bad options.

Connecticut is no longer digging the hole deeper. Each succeeding generation of state workers have, through negotiations, agreed to settle for less. Benefits negotiated during the prior administration of Gov. Dannel P. Malloy call for a hybrid system for new hires. It makes these state employees partially responsible for saving for their own retirement, combining fixed benefits with a 401k style plan. It is a sustainable approach for the state.

The bad news is that it does not address the legacy problem -- generous pension deals negotiated by governors and OK'd by legislatures who left it to their future counterparts, and the taxpayers, to figure out how to pay for them. Through the 1940s, 1950s and 1960s Connecticut saved nothing to pay for the pensions it was contractually obligated to provide. And even throughout the 1970s and well into the 1980s, the savings set aside fell

far short of what actuaries were telling state officials were necessary.

Thereafter the legislature got more serious about setting aside money to meet pension commitments, but even then the requirements would be ignored when a budget had to be balanced and tax increases or spending cuts were not judged politically attractive. It was not until after Malloy's election in 2010 that the state baked into the budget process the pension contributions.

Now Connecticut faces the tough mathematical reality that those obligations will continue to demand an ever-larger piece of the budgetary pie, either requiring tax increases or reducing resources for social safety net programs, and probably both.

A 2015 analysis requested during the Malloy administration concluded that by the early 2030s, now not so very far away, the annual contributions to underwrite the state worker and teacher pension plans would reach $12 billion annually, this in a state where the current state budget, in total, is only $21 billion. While some have characterized the analysis by the Center for Retirement Research at Boston College as overly pessimistic, even an obligation of $8 billion -- one-third lower than projected -- would still be unsupportable.

In 2017, Malloy persuaded the legislature to approve a relatively small refinancing of the state employees' pension fund to keep the annual obligation manageable. We supported that adjustment.

Earlier in his term -- before the pandemic largely ceased legislative action --Gov. Ned Lamont proposed a far more aggressive refinancing plan. He suggested restructuring the state's pension contributions over 13 years to save about $9 billion, providing an initial savings and then climbing by 3 percent to 4 percent annually through 2032, but remaining far more manageable than current projects. A second restructuring would have carried Connecticut through 2050.

That sounded good until you considered what shifting the obligations out that far would mean in increased interest charges -- an extra $27 billion obligation over the long term to save that $9 billion, according to the reporting of Keith M. Phaneuf at the Connecticut Mirror back in 2019.

Ultimately, in 2019, Lamont struck a cautious refinancing deal with the labor unions to save the state about $272 million over the course of two fiscal years and provide some small fiscal breathing room. It made no changes in pension benefits.

Since those discussions, the governor and the state have otherwise been preoccupied, but the problem has not gone away and must be addressed.

Our expectation is that further refinancing can be part of the solution, but is not the entire solution. Post-election, Gov. Lamont should renew talks with state labor unions and the legislature. If a tax increase is tapped to help, it must be dedicated for pension needs. And state pensioners should be ready to take a modest haircut or risk losing their pension payments, or some portion of them, if the system goes bankrupt.

This problem is every bit as big and difficult as our 2014 investigation suggested. But Connecticut has no choice but to solve it. *The Day*, www.theday.com, September 9, 2020.

4. NEW YORK STATE PENSION INCREASES EMPLOYER CONTRIBUTION RATES: The New York State and Local Retirement System (NYSLRS) has increased employer contribution rates for the Employees' Retirement System (ERS) for fiscal year 2021-22 to 16.2% from 14.6% of payroll, and for the Police and Fire Retirement System (PFRS) to 28.3% of payroll from 24.4%.

The new rates represent increases of 11% and 16%, respectively, for the ERS and PFRS. There are more than 3,000 participating employers in ERS and PFRS, and more than 300 different retirement plan combinations.

"Employer contribution rates have gone down or remained relatively flat for several years, but demographic changes, such as longer life spans, and market volatility are nudging up rates," New York State Comptroller Thomas DiNapoli said in a statement. "Keeping the plan well-funded has helped improve New York's credit rating and avoided the budget problems faced by states with poorly funded pensions."

The funded ratio of the state pension fund is currently 86.2%, DiNapoli said.

NYSLRS' actuary made the recommendation for the increase, which was based on investment performance and actuarial assumptions. The recommendations were reviewed by the independent Actuarial Advisory Committee and approved by DiNapoli.

According to the NYSLRS, the actuary found that retirees and beneficiaries are living longer and members are retiring at a higher rate than previously projected. The main factors contributing to the increase were the demographic factors combined with slightly

lower-than-expected investment results over the past five years. The actuary warned that assumptions and rates could be impacted in the future because of economic turmoil and "extraordinary uncertainty" in 2020.

Although the assumed rate of return stayed unchanged at 6.8% after being lowered from 7% last year, it may be lowered again next year as the system's actuary recommended that it be reviewed in 2021. In 2010, DiNapoli decreased the assumed rate of return to 7.5% from 8%, and then lowered it again in 2015 to 7%. According to the National Association of State Retirement Administrators, the median assumed rate of return for state public pension funds as of July is 7.25%. NYSLRS is one of only 24 of 130 major public funds that currently have an investment return assumption below 7%.

Meanwhile, the New York State Common Retirement Fund (CRF) made nearly $375 million in private equity investments in July, according to the fund's most recent monthly transaction report.

The fund made a €300 million ($354.6 million) commitment to the EQT Partners' EQT IX, which will target buyout investments in Europe within the health care, business services, industrial technology, and technology, media, and telecom sectors. It also made a A$14 million ($10.2 million) commitment through the NYAI Co Investment Fund III to the Adamantem Capital Fund II, L.P. Adamantem was established in 2016 to make control investments in companies with an enterprise value of between A$100 million and A$300 million.

The fund also made a $10 million commitment to the Pitango Venture Capital Fund VIII, L.P. through the Hamilton Lane/NYSCRF Israel Fund, L.P. Pitango will make early stage venture investments in the technology industry. Michael Katz, Chief Investment Officer, www.ai-cio.com, September 9, 2020.

5. CONNECTICUT PENSION FUND ON SUSTAINABLE PATH:
As State Treasurer Shawn T. Wooden has said many times, we have significant unfunded pension liabilities that stem from over seven decades of underfunding and historically unrealistic investment return assumptions.

While it is true that future investment returns are expected to be lower in the capital markets, the Aug. 22 op-ed "The coronavirus has made Connecticut's unfunded pension problems even worse" misses some important points.

Relying on a study by the National Association of State Retirement Administrators, the

authors argue that the investment return expectations for Connecticut pension plans are higher than the average expected returns of other U.S. pension plans. However, that's simply inaccurate. Connecticut's 4.4% real rate of return assumption, as shown in the most recent actuarial report from June 2019, is lower than the national average. Further, the same NASRA study also shows that the average nominal rate of return (the real rate plus inflation) assumptions for all public plans is 7.25% versus Connecticut pension plans' 6.9%.

So, in fact, Connecticut's pension plans are more realistic about future capital market returns than the average of our peers.

The assertion that the state will have issues contributing to the plans in the future due to the economic impact caused by the coronavirus is just not accurate. In fact, this year we expect the state to make its annual employer pension contribution payment and, for the first time in 19 years, make $75 million in additional payments towards reducing our unfunded pension liabilities.

On his second day in office, Treasurer Wooden started work on a plan to restructure the Teachers' Retirement Plan to make it more sustainable for the long-term. Moving to a more realistic investment return assumption -- reducing the target from 8.0% to 6.9% -- was a key priority. This right-sizing of the investment target allowed us to avoid the kind of risk that can lead to very heavy losses in volatile markets.

Another important component of this restructuring that is sometimes overlooked was the change to the amortization method used to calculate state contributions to a level dollar basis. The level dollar method means a level payment every year, like a mortgage. This is a significant improvement from the state's prior methodology, which had increasing payments every year, deferring costs into the future. Making this change makes the current payments large enough to actually pay down principal on the debt.

In other words, this change ensures that the state's contributions will be large enough to cover interest accruing on the unfunded liabilities with some of the payment applied to principal so that liability is not deferred to future years. The plan, approved by the legislature last year, also reduced annual state contributions required to be made into the pension plans by $900 million over the first five years. These changes ultimately protect taxpayers, create room in the state budget for funding critical services that are more important than ever now and lays the foundation for economic growth.

Treasurer Wooden also designed a stable investment strategy to deliver solid, steady

results over a long term. Last year, the combination of these efforts and steps taken to protect the rainy-day fund was a fiscally prudent approach that helped lead Standard & Poor's credit rating agency to upgrade Connecticut's bond credit outlook to "positive" for the first time in nearly two decades.

Recently, in the midst of the coronavirus pandemic, several rating agencies affirmed the state's credit ratings and stable outlooks on the state's General Obligation bonds. Connecticut remained stable, while other states were experiencing credit rating downgrades or negative outlooks.

When he started this work at the Treasury, Treasurer Wooden focused on capital preservation as a paramount goal and prudent risk taking as essential to achieving these objectives and to establishing asset allocation plans. We have to stay vigilant in addressing this long-standing problem, which will take a long time to fix. But we are now on a more sustainable path to building a manageable pension system for taxpayers than it has historically been while still maintaining the promised benefits for our retirees.

We need facts and transparency to develop good policy prescriptions, not misinformation that distracts us from the work we are doing to fix the problem. Laurie Martin, Hartford *Courant*, www.courant.com, September 12, 2020.

6. ILLINOIS PENSIONS HAVE BEEN OVERPROMISED, NOT UNDERFUNDED:
Listen to opponents of pension reform and they consistently blame Illinois' pension crisis on underfunding. After decades of not putting enough money into pensions, their argument goes, it's time for taxpayers to pay up.

That diagnosis unfairly puts the burden squarely on Illinois taxpayers. And it allows Illinois politicians to prescribe ever more tax hikes as the only "cure."

Yes, it's true that Illinois' five state-run plans have an official pension shortfall of more than $137 billion, but it's not true that underfunding is the cause of the crisis. Instead, a dramatic growth in pension benefits is what has nearly bankrupted Illinois. Overpromising, not underfunding, is the real problem.

A Wirepoints analysis of official state data finds that total pension promises owed to state workers, teachers, university employees, judges and lawmakers have exploded over the past three decades. Those promises -- known as accrued liabilities -- have grown 1,146% since 1987, four times more than both Illinois' economy and the state's general revenues.

A big reason for that is the Illinois Constitution's asymmetry. The constitution bans cuts to pensions, but it does nothing to control the benefits lawmakers dole out to gain political favor. And dole them out they have.

Gov. Jim Thompson added compounding to Illinois' already high 3% cost-of-living adjustments (COLAs) in 1989.

Gov. Jim Edgar sweetened Illinois' pension formula even more in 1998, to create what he called "the most significant increase in pension benefits for state workers in a quarter century."

And more recently, Gov. J.B. Pritzker brought back 6% end-of-career salary spiking for teachers just after those spikes had been cut in half.

Illinois government workers are now recipients of some of the nation's most generous retirement benefits. Career public schoolteachers retiring today, for example, can expect to retire in their 50s, get automatic COLAs and end up with an average of $2.9 million in lifetime pension benefits.

In contrast, actuarial data and data obtained through the Freedom of Information Act analyzed by Wirepoints show that teachers in the nation's other big states get far less, even before adjusting for regional cost differences. California, New York, Florida, Texas and Pennsylvania grant lifetime benefits ranging from $2.4 million in New York to $1.3 million in Texas.

One of the biggest drivers of that difference is COLAs for Illinois' Tier 1 retirees -- those hired before 2011. They get automatic 3%, compounded increases that end up doubling their annual pensions after 25 years in retirement. None of Illinois' peer states offer anything close to that. Some states such as Pennsylvania or Texas have gone years without granting a COLA. Others, such as Iowa, offer no COLA at all.

It's not surprising, then, that Illinois is revealed as an extreme outlier nationally when Pew Charitable Trusts data is used to compare growth in total benefits across the 50 states.

Illinois' total pension promises grew the fifth-fastest nationally between 2003 and 2017, at a yearly clip of 7.2%. Compare that with neighboring Indiana's growth of 4.7% or Wisconsin's 3.5%. That contrast in growth rates has made the difference between crisis and prosperity.

If Illinois' pension benefit growth had only been more moderate over the past three decades -- say at the national average -- the state wouldn't be in the mess it's in.

Any way you slice it, overpromising is Illinois' problem, as we recently highlighted in the second of Wirepoints' four-part special report on solving Illinois' pension crisis.

As for taxpayers, it's not as if they haven't done their part. Illinoisans already pay the nation's highest property taxes in what Kiplinger calls the "Least Tax-Friendly State" in the nation. And that's nothing new. Federal Reserve Bank of Chicago economist Leslie McGranahan found that Illinois has ranked in or near the top 10 states in per capita taxes for the past 60 years.

For too long, true pension reform in Illinois has been hamstrung by the misdiagnosis of "underfunding." That's allowed Illinois lawmakers to keep on prescribing the wrong medicine -- tax hikes -- over and over again.

It's time Illinois finally got the diagnosis right. That, in turn, will get us to the right prescription: An amendment to the pension protection clause and comprehensive pension reform. Ted Dabrowski and John Klingner, Chicago *Tribune*, www.chicagotribune.com, September 9, 2020.

7. HOW NEW YORK CITY'S POLICE UNIONS EMBRACED TRUMP:
New York City's largest police union had not endorsed a candidate for president in decades when its leader, Patrick J. Lynch, stepped to the lectern last month at President Trump's golf club in New Jersey.

"Mr. President, we are fighting for our lives out there," Mr. Lynch said, in the all-caps cadence familiar to any casual viewer of the New York nightly news. "We don't want this to spread to the rest of the country. We need your strong voice across the country."

Mr. Lynch said his union, the Police Benevolent Association, was endorsing Mr. Trump because city and state leaders had been relentlessly scapegoating hard-working police officers and allowing chaos to reign on the streets.

But another factor that may have played into the P.B.A.'s endorsement could be seen in the imagery surrounding him: Joining Mr. Lynch before a sea of mostly white union members were three of his top colleagues, each of them a white Republican from conservative strongholds in Staten Island or Long Island.

The tableau of the four union leaders standing together with Mr. Trump reflected a larger truth about the upper ranks of the city's police unions: Even as the Police Department has become more diverse and is now less than half white, the unions continue to be run mostly by white conservatives who live in the suburbs and increasingly echo the president's views.

Nearly 90 percent of the police unions' leaders -- officers, trustees, financial secretaries -- are white and even more are men, according to an analysis of public records by The New York Times. Close to 70 percent are registered Republicans and more than 60 percent live on Long Island or in counties north of New York City, the analysis found.

The demographic gap helps explain the political spectacle and cultural gulf on display in recent weeks as New York City police union leaders have stridently repeated the president's mayhem messaging and attacked Black Lives Matter protests in scathing terms.

This is occurring in a city where Mr. Trump is deeply unpopular, only a third of residents are white and the Democratic establishment has embraced the nationwide campaign against police brutality and racial bias.

While some Black and Hispanic police fraternal groups objected to Mr. Lynch's endorsement of the president, there is no evidence of a broader backlash among rank-and-file members to the announcement of support, nor to Mr. Lynch's speech last month praising the president at the Republican National Convention.

Still, the demographics of the police unions' leadership set it starkly apart from a majority of the department's 36,000 uniformed officers and from the wider population of New York.

Like President Trump, Mr. Lynch and his colleagues have chosen to characterize the current round of protests not as a moment of historical reckoning over systemic racism, but instead as one of chaos sowed by the "radical left."

Mr. Trump has in turn amplified those views. On Sunday, he responded to a tweet from Mayor Bill de Blasio encouraging New Yorkers to enjoy the nice weather by saying, "People don't want to get mugged, beaten up, or killed. Let New York's Finest (who proudly endorsed me!) do their job."

As they have done for years, the union leaders have set themselves against the

momentum for change. They have fought a city law that made it a misdemeanor for police officers to use chokeholds during arrests, and tried to stop a state law that makes officers' disciplinary records public. And they have fiercely opposed a state law ending the use of cash bail for most nonviolent offenders in New York.

City and state officials said the police unions have largely given up on traditional lobbying and back-room negotiations since their main political allies, Republican lawmakers who controlled the State Senate, lost power two years ago. The police union leaders have instead leaned more heavily than ever on incendiary public attacks on liberal politicians and their allies.

In June, for instance, when the unions faced certain defeat in a long battle to keep their members' disciplinary records secret, they conceded as much to several state lawmakers and asked for only small concessions, according to two lawmakers approached by the unions.

Mr. Lynch has not met with Mayor de Blasio in more than three years, city officials said. Nor, the officials added, did the P.B.A. or other police unions make any attempt to lobby the City Council before it took up a package of police oversight bills this spring or moved weeks later to shift nearly $1 billion from the Police Department's budget.

Instead, the officials pointed out, Mr. Lynch held a news conference near City Hall with his fellow union leaders, lashing out at local politicians. "For our legislators to demonize police officers, as if we're the problem, as if we broke the windows, as if we caused the violence, that is absolutely outrageous," Mr. Lynch said.

Asked about the police unions' approach, Bill Neidhardt, a spokesman for Mr. de Blasio, said, "They have shifted out of policy and representation and into politics. And not just any politics but the politics of the far right. It's a step to the extreme."

The P.B.A. declined requests to interview Mr. Lynch and the other three union leaders at the Trump endorsement. Mr. Lynch also would not respond to questions about his relationship with Mr. Trump or with the city's communities of color.

In a statement, Mr. Lynch played down the disparity between the police union leadership and the rank and file, saying the P.B.A. was unified under his watch. "The secret of our solidarity isn't complicated," he said. "No matter where we live or what we look like, police officers' concerns are the same."

But his endorsement of Mr. Trump, coming after years of opposition to police reform, has disturbed some city officials, and deepened their disillusionment with what they have described as a reactionary stance by the police unions.

“When people in my community hear Pat Lynch speak, what they hear is hatred being spewed,” said Donovan Richards Jr., a Black Democrat from Queens who chairs the public safety committee of the City Council.

Many Black and Hispanic officers said they did not feel represented by their unions, a sense of disconnection that was heightened by the P.B.A.’s endorsement.

“Who are the unions’ shot callers?” asked Detective Felicia Richards, who leads the Guardians Association, a fraternal organization for Black officers. “It’s pretty much still a good old boys’ club.”

Last month, the Guardians Association condemned the endorsement of Mr. Trump and said that while Mr. Lynch had served his members well in some ways, he reached the decision to endorse without even conferring with his union.

Charles Billups, chair of the Grand Council of Guardians, a statewide organization for Black police officers, said Mr. Lynch’s support of Mr. Trump put many active Black officers in the awkward position of opposing people who -- at least in theory -- were meant to represent them in contract negotiations, disciplinary proceedings and other aspects of their jobs.

“Do we speak out against it and end up being blackballed or ostracized by people we work with every day?” Mr. Billups asked. “Or do we just go along to get along?”

The police union’s embrace of Mr. Trump has been gathering steam all year, but it came to a head last month when Mr. Lynch, a registered Democrat with conservative views, spoke at the Republican convention.

During his address, Mr. Lynch offered New York as a case study backing one of Mr. Trump’s central campaign arguments: that the nation’s cities were under siege by anarchists and criminals.

“Why is this happening?” he asked. “The answer is simple: The Democrats have walked away from us.” The speech and the endorsement were the culmination of a decades-old campaign to pressure politicians on law and order issues, at times using fear-mongering

tactics or language with a clear racist subtext.

Most notoriously, the P.B.A. held a rally in 1992 against the city's first and only Black mayor, David N. Dinkins. Hundred of union members carried signs with sayings like "Dear Mayor, have you hugged a drug dealer today" and "Dinkins, We Know Your True Color -- Yellow Bellied." Some officers were also reported to have used racial slurs.

Two weeks ago on Twitter, the P.B.A.'s sister union, the Sergeants Benevolent Association, referred to Councilman Ritchie Torres, who is Afro-Latino and gay, as a "first-class whore." Mr. Torres, the Democratic candidate for a Congressional seat in the Bronx, had called for an investigation into a possible police slowdown during a spike in gun violence.

So far, Mr. Lynch has been the only police union leader in New York to endorse Mr. Trump, but Edward D. Mullins, who runs the sergeants' union, and Paul DiGiacomo, the head of the Detectives' Endowment Association, have both come close.

Echoing the president, the three men and their aides have gone on television and social media to blame the rise of shootings in New York on what they have described as failed liberal policies. Some have called on Mr. Trump to send federal officers to the city. Others have launched Trump-like cultural attacks comparing protests around the country to Nazi rallies.

Union leaders have also complained about a "progressive violence plague" in New York and praised Mr. Trump as the only politician with the strength and courage to stand up for the police. Mr. Mullins has even appeared on Fox News with a mug in view emblazoned with a logo for QAnon, a conspiracy theory that holds that a cabal of satanic pedophiles is intent on defeating Mr. Trump.

As early as February, Mr. Mullins visited the White House to talk about the "plight of police officers in NYC," as he wrote on Twitter:
"@realDonaldTrump has our backs!" he said.

In the months that followed, Mr. Mullins went to war with Mr. de Blasio, blaming him for a litany of local crimes and launching personal attacks that culminated one day late last month when he demanded the mayor resign by "sundown."

Employing similar themes, Mr. DiGiacomo gave a recent interview on YouTube in which he displayed framed photos of himself with Mr. Trump and of his father, a onetime city

transit officer.

Mr. DiGiacomo said he had never seen New York at such a low point and blamed the city's problems on police reform laws, feckless district attorneys and Democrats like Mr. de Blasio and Gov. Andrew M. Cuomo who, he said, had given up on supporting New York officers.

While he acknowledged he was not yet formally backing Mr. Trump, Mr. DiGiacomo added: "The way we see it right now, there's only one person out there standing up for the police."
Not quite half -- or 47 percent -- of the city's uniformed officers are white, police officials say. Twenty-nine percent are Hispanic and 15 percent are Black. Asian officers make up 9 percent of the force.

The union leadership, however, is 88 percent white, according to listings posted on their websites and in tax reports. Hispanic officials account for 7 percent of the upper ranks. Black officials make up only 5 percent.

There is a similar divide in where officers and union leaders live. In 2016, the last year that detailed data was available, 58 percent of all New York officers lived in one of the city's five boroughs. Long Island was home to 26 percent and about 13 percent lived in one of four northern counties.

But according to public records, only 36 percent of union leaders live within the city. Most -- 44 percent -- live on Long Island. Another 19 percent make their homes in the nearby northern suburbs. Twenty percent live on Staten Island or in largely white neighborhoods in Queens.

As for politics, voting records indicate that a majority of union leaders -- 68 percent -- are registered Republicans. Twenty-six percent identify as Democrats, the records show, and 5 percent have no party or another affiliation.

Asked if union leaders reflect their members, Mr. Lynch noted in his statement that his administration, which has been in power for more than 20 years, had appointed both the first Black and first Hispanic officials to the union's top three slots.

He also pointed out that he had been elected to a fifth term in 2015 with 70 percent of the vote and a sixth term last year after running unopposed.

In an interview, Mr. Mullins said his own membership was well served by its leaders "regardless of their color or ethnic background." If they were not, he added, "I would expect them to say something about it."

The son of an Irish longshoreman and a Latina homemaker, Mr. Mullins said that officers of color had not yet had a chance to rise through the union's ranks. "People have to go through the process of getting elected and putting in time to get to the top," said Mr. Mullins, who has run the union since 2002. "The mechanism is there. We just have to allow time to take its course."

Some former high-ranking officers, however, said the union leadership was less diverse than the department because an old guard of leaders has had a lock on power.

"It's a network," said Robert Gonzalez, a former president of the Latino Officers Association who is now a professor of criminal justice at St. John's University. "They mentor each other. They steer people to vote a certain way. They navigate them and endorse certain people. And it just so happens that those people are white men." Alan Feuer, New York *Times*, www.nytimes.com, September 14, 2020.

8. DB PLANS CAN EXPECT CONTINUED FUNDED STATUS ISSUES:
Though the market has rebounded from its low point in the first quarter, investors are probably not out of the woods yet, says Cooper Abbott, president and chairman of Carillon Tower Advisers. He points to the market drops that happened in just the past week, saying, "I'm not sure we're done."

And the recent Fed announcement regarding lower interest rates for longer will have a significant impact on defined benefit (DB) plan sponsors, says Tom Swain, a principal at Findley. He says the latest funded status tracking is showing that private-sector DB plans' funded status overall dropped approximately 9% since March. He points out that while that is significant, it is much milder than during the Great Recession of 2008-09 when funded statuses dropped 25% to 30%.

Low interest rates are having the same effect on public plans as corporate plans, Abbott says. The math is basically the same.

Abbott also says it's important to consider the challenges in the real economy--tax receipts are down, state taxes are down, corporate taxes are down and real income is down. "It's not going to get better any time soon. Even gas tax receipts are a big part of state government funding," he says. "So funding status is going to be a problem for a long time."

At a high level, the difference between government and corporate DB plans is that there is a "full faith and credit" backing government plans, so benefits will get paid one way or another, Abbott says, noting that taxpayers are on the hook. For corporate DB plans, corporations may go bankrupt. Abbott says mergers can help reduce firms' pension obligations.

According to Swain, with interest rates--and plan funded status--so low, corporate plan sponsors are having to hold off on moves to offload risk by doing a pension risk transfer. He says this bears out in data. LIMRA reports about a 25% drop in dollar volume of annuity purchases from a year ago.

"Volatility is a day-by-day thing, so there's no way to predict for calendar year plans where the market will line up by December 31," Swain says.

Abbott notes that there is what he calls an "early retirement boomlet" in both the public and private sectors. Some individuals have things to deal with in their personal lives that make them decide to retire; some are close to retirement age and have decided to lock it in now since the market has recovered. In the public sphere, public safety workers and educators are retiring earlier than they initially planned. "The reality isn't matching public plan assumptions of when things need to happen, and these plans are losing big contributors," Abbott notes.

Actions Public DB Plan Sponsors Should Consider

"When you look broadly at the funded status for public pensions, it's really a tale of two cities or states," Abbott says. "Some are doing great, while some are in dire straits and will require adjustments." He says the major levers are assets and liabilities. On the asset side, public pensions might have over-relied on returns and haven't included enough funding. Plan sponsors should ask, "Do we have enough assets and are they well invested? Have we contributed enough?"

For public-sector DB plans, the pandemic has had much milder effects than in 2008-09, Swain says. He adds that most public plans have fiscal year ends of June 30. The markets had stated to rebound by then so even though required contribution levels were slightly higher, it was not as bad as public plan sponsors had feared at the end of March.

Swain says the general trend for private-sector plans is that, with every recession, more plan sponsors have decided to close their plans to new members or freeze their plans. There are many more open and accruing plans in the public sector.

He adds that contribution effects unfold more slowly for public-sector plans, but he is still anticipating conversations about amending plans to create new plan designs that might include participant choice and closing plans with current participants grandfathered in. "We expect public plan sponsors to pull all levers, including changing benefits and requiring additional contributions from members," Swain says.

It's the liability side of the equation that Abbott thinks doesn't get enough attention. "For public plans, the amounts anticipated to be paid include amounts related to health care and longevity. To try to have better outcomes on the liability side, focus on wellness rather than sick pay," he says.

While there is no magic bullet, Abbott says, plan sponsors can help people focus on staying healthy and consider implementing later retirement ages in plans going forward for people entering the system. Another possibility is resetting the amount of coverage, winding back some benefits.

"A number of plans have gotten it right," Abbott says, citing a PLANSPONSOR article about what well-funded public plans are doing. "Public plans also need a long-term strategy and to not take on risk to make up for funding gaps," he adds. "It will take a re-evaluation of portfolios to be more return oriented. I've seen an interest in active management for returns and also to protect portfolios on the downside."

Actions Corporate DB Plan Sponsors Should Consider

Abbott says corporate DB plan sponsors have more flexibility in what they can contribute to plans. He says they should ask whether contributions go to share buybacks or to shore up their plans.

"We've completed most of our 2020 actuarial valuations for calendar year plan sponsors," Swain says. "Because 2019 was such a strong year, required contribution levels are lower than in 2019. This is a good thing because a lot of plan sponsors are suffering economically."

Plan sponsors should first start with assessing how their businesses are doing. "We know certain industries have been deeply affected by the pandemic, so we are having conversations about what CARES [Coronavirus Aid, Relief and Economic Security] Act provisions they can execute to defer contributions," Swain says. Plan sponsors need to determine whether it makes more financial sense for them to defer required minimum contributions.

For clients in industries not as deeply affected by the pandemic, Swain says he's advised that they continue to make their required contributions so they can continue to invest in the markets and keep plans funded as much as possible. Even plan sponsors that are doing well are concerned about what the future holds, so no one has talked about contributing more than the required amount this year, he adds. They are conserving cash for their businesses.

While contributions are going to ratchet up funded status for corporate plans, Abbott notes that it is clear these are unprecedented times. "Fixed income has been such a large equation in corporate DB plan portfolios. What does fixed income look like in a world where there's no income?" he queries. He says duration is the consideration in an environment where rates can go even lower. "At some point, rates will have to go back up, so DB plan sponsors should have a strategy that is unconstrained and free from benchmarks so they can take advantage of tactical moves," Abbott adds.

He says he has seen a move to equities in corporation pension portfolios, including to large caps that have a dividend component.

"The other thing we've heard from clients is about the concept of inflation. Most asset managers today haven't really managed through that environment, so maybe commodities and/or precious metals will become part of the equation," Abbott says. Rebecca Moore, *PLANSPONSOR*, www.plansponsor.com, September 9, 2020.

9. RETIREMENT READINESS MAY BE AT RISK FOR PEOPLE OF COLOR:

Key findings snapshot:

- *More than half (52%) of POC say they believe they have plenty of time to save for retirement*
- *Less than half (46%) say they have made progress with setting long-term financial goals*
- *Less than one-third (32%) of POC are currently working with a financial professional*

Although they suggest feeling reasonably prepared for retirement, Americans who identify as people of color (POC) report limited retirement-focused investments and lack of progress toward achieving important retirement goals. These findings indicate a potential misinterpretation of their financial situation that may put POC's retirement readiness at

risk, according to the 2020 Retirement Risk Readiness Study* from Allianz Life Insurance Company of North America (Allianz Life).

The study found more than half of POC believe they are currently saving enough in a retirement account (55%), and a nearly equal amount (52%) feel they have plenty of time to save for retirement. These feelings of preparedness are underscored by the fact that more than one-third (35%) of POC say retirement is too far away to start worrying about it.

“The level of confidence POC have in their retirement readiness could be attributed to different cultural values that shape their decision making,” said Cecilia Stanton Adams, chief diversity and inclusion officer, Allianz Life. “Oftentimes in communities of color, breadwinners are expected to balance support for multiple generations with their personal retirement goals. This complexity, among others, could be responsible for the disconnect we see between perception and reality, putting POC at higher risk for retirement insecurity.”

Indeed, less than half of POC respondents report ownership of investments and accounts that can help with retirement security. This includes participation in employee sponsored plans (48%) and ownership of accounts including life insurance (33%), IRAs (21%) and fixed or variable annuities (5%).

Furthermore, less than half of POC report making progress toward achieving some of their personal retirement goals. Some of these measures include “setting long-term financial goals” (46%), “diversifying my retirement savings to protect more of my nest egg” (40%) and “purchasing a financial product that provides a guaranteed source of retirement income” (25%).

“Given that a recent study from the Brookings Institution found the net worth of a typical white family is nearly ten times greater than that of a Black family,** it’s not surprising that our study shows that POC may be behind in developing a sound retirement strategy,” noted Stanton Adams. “This highlights an opportunity for POC to address their financial situation head on, including working with a financial professional who can help them develop an achievable retirement plan.”

Lack of professional help

A significant factor in POC’s retirement readiness may be a lack of professional help. Less than one-third (32%) of POC indicated that they are currently working with a financial professional. One potential repercussion is that nearly seven in 10 POC say they plan to work into retirement. At the same time, POC indicate a significant level of concern about a

variety of retirement issues where a financial professional could provide assistance.

Some of these concerns include “having unexpected, large expenses to pay” (63%), “becoming a financial burden to your loved ones” (52%), “not having enough money to do all the things you want to do in retirement” (53%) and “not being able to stay in your home” (48%).

“We believe that POC want to take more control of their finances, but may be struggling to find the right support from a financial professional,” said Aimee Lynn Johnson, vice president of Financial Planning Strategies, Allianz Life. “This leaves room for financial professionals to better serve these communities through education, outreach and support in building retirement strategies that can mitigate some risk.”

*Allianz Life conducted an online survey, the 2020 Retirement Risk Readiness Study, in January 2020 with a nationally representative sample of 1,000 individuals age 25+ in the contiguous U.S. with an annual household income of $50k+ (single) / $75k+ (married/partnered) OR investable assets of $150k.

The study was balanced and weighted on various demographic factors, including age, income, and race. The study is comprised of 84% of respondents who identified as white and 17% who identified as people of color (8% Black; 6% Asian; 1% Native American/Alaskan; 2% other). Allianz, www.allianzlife.com, September 9, 2020.

10. OPTIONS TO HELP PARTICIPANTS AVOID TAPPING INTO RETIREMENT SAVINGS: The Coronavirus Aid, Relief and Economic Security (CARES) Act allows qualified individuals to take a loan or withdrawal of up to $100,000 from their defined contribution (DC) account, yet experts say DC plan participants should view this as a last resort.

Those affected by COVID-19--meaning those who have been diagnosed with COVID-19, have had a spouse or dependent fall ill as a result of the coronavirus or experienced adverse financial effects for a number of reasons--are eligible to take a coronavirus-related distribution (CRD) from their DC plan. The idea behind the enhanced distribution option was to provide a financial safety net to individuals with few options.

However, retirement industry experts encourage individuals to weigh the pros and cons of taking CRDs from retirement savings accounts. Many experts say cons include the three-year time window participants have to pay back the distributions to avoid incurring taxes and any taxation should an individual fail to pay back the distribution.

It’s best to tap into other networks before applying for a loan or withdrawal, says Ben Lewis, head of institutional sales and consultant relations at TIAA. “We say, ‘Let’s go back to basics.’ Are there ways to reduce credit card debt, utility bills, mortgages or rent?” he asks. Making a temporary lifestyle change, such as selling a car or unneeded furniture, can help with day-to-day cash flow troubles, he adds.

Lewis says taking a retirement plan loan should be a last-case scenario. Participants who take a large loan can risk not meeting the payback period, and many participants are already underfunded in their retirement programs, he says.

Individuals can instead source cash through a home equity loan, adds Mark Charnet, founder and CEO of American Prosperity Group. With such a loan, homeowners can borrow up to $100,000--the same as the CARES Act limit--and pay it back within 15 to 20 years with no major tax hit. Charnet recommends individuals look into lending from their local bank, as a bank in an individual’s state and region could be more likely to lend the money and it could result in a better value.

Similarly to using a home equity loan, homeowners can also refinance their home, Charnet says. Individuals who choose to refinance their loan can pay it back within 30 years at a lower interest rate than the one on the current mortgage. Homeowners can also choose a 15- to 20-year mortgage if they’re looking for a shorter payback period.

If an individual is not a homeowner but is still working, he may be able to get a loan from his employer or take a loan against his life insurance. Taking a loan from an employer often requires an employee to have good standing and other requirements, and individuals should check with their employer about specifics. In this scenario, employees could likely pay back the loan via a salary reduction, Charnet says.

Borrowing against a life insurance policy also may be a good alternative for those in urgent need of cash, Charnet says. Individuals can repay their life insurance loan on their own schedule and these loans will typically have low interest rates. However, an individual will need to have enough cash value in their policy for them to borrow. This may not be available for some participants, depending on how long they’ve had the policy.

Lewis and Charnet say these resources may not be realistic for some, depending on their employment status. Obtaining a home equity loan, for example, may prove more difficult for those who have lost their job, Charnet says. “It’s not an easy spot if you don’t have something to sell or equity to tap into,” he says.

Aside from selling unused items, individuals can free up some cash by reducing student loan debt payments and/or credit card debt payments. “It’s looking around and seeing where those opportunities are to pause, stop or defer debt payments, or take withdrawals separate and distinct from the retirement program,” Lewis says.

Through the CARES Act, individuals are allowed to suspend monthly student loan payments without penalty. Acting on President Donald Trump’s presidential memorandum signed August 8, U.S. Secretary of Education Betsy DeVos directed Federal Student Aid (FSA) to extend this student loan relief to borrowers through December 31. However, as Congress has reached a standstill on a new relief program, individuals who use this feature will need to go back to paying their loans after December 31.

Charnet also says that before taking a DC plan withdrawal, depending on how much money they need, individuals can look into possibly working a part-time job. This is more of a long-term plan, as it won’t generate a large sum of money instantly, and employers may be more reluctant to hire right now amid the pandemic and soaring unemployment numbers. But, if time isn’t critical, it can mean extra cash for those who need it for a medical bill or loan, Charnet says. “While it may not solve their immediate need, for something with a long time frame, they can certainly pay it back by earning a small income,” he says. Amanda Umpierrez, *PLANSPONSOR*, www.plansponsor.com, September 9, 2020.

11. SOCIAL SECURITY DEMYSTIFIED:
Why so many Americans file too early, and how employers can help.
Due to COVID-19, more Americans may be on the verge of retiring early and taking Social Security before it is in their best interests. “Even before the pandemic, the trend was that more than half of retired workers said they retired earlier than they had planned, and their reasons were fairly evenly split between employment issues and health- or family-related matters,” says Catherine Collinson, CEO and president of nonprofit Transamerica Center for Retirement Studies (TCRS) in Los Angeles. “Now, with the pandemic and the recession, it’s a double whammy: It’s both health-related and employment-related. So, unfortunately, we should expect that trend to be exacerbated.”

Americans most often start taking Social Security benefits at age 62, the earliest possible timing, TCRS research indicates. And its research finds that, among people who expect Social Security to be their main source of retirement income, only 24% say they know a “great deal” about how it works. Asked about the implications of that knowledge gap, Collinson says, “There’s a tremendous opportunity to help older workers understand

Social Security benefits."

Taking Benefits Early
Forty-two percent of unretired Baby Boomers plan to start drawing Social Security benefits before their full retirement age, and another 16% say they are unsure about their timing, according to The Nationwide Retirement Institute Social Security Consumer Survey, released in July. Among those who plan to start drawing benefits early, 55% of Boomers cite their need to retire earlier than full retirement age as the main reason. On average, Boomers expect Social Security to cover 56% of their expenses in retirement, Nationwide finds.

Amid the pandemic, an increase in early retirements among Americans worried about their health risks on the job would not surprise Collinson. "As we get older, we can be more susceptible to health problems," she says. "And experts have specifically warned older individuals about being vulnerable to COVID-19."

A major economic downturn also can lead to more people taking Social Security early. During a recession, "our research has found that it's more difficult for older workers than younger workers who've been laid off to find employment, and it takes longer," Collinson says. And many of them don't have adequate savings or income, so even though it's a steeply reduced monthly Social Security benefit, they need the money and start taking benefits."

Some Americans likely take Social Security early because they overestimate how much they will get in monthly payments, says Tina Ambrozy, senior vice president, strategic customer solutions at Nationwide Financial in Columbus, Ohio. "Social Security is not meant to be the whole source of someone's income in retirement," she says. But many Americans have not learned the basics of Social Security. "There's a lot of misunderstanding about how it works: Most folks we surveyed don't know the rules," Ambrozy says. "Many believe that if they take their benefit early, their monthly benefit will then 'step up' to the full benefit when they reach full retirement age. Folks retire early and lock in a benefit with misconceptions about what will happen, and then they're surprised they got less than they expected."

Fifty-one percent of Boomers surveyed by Nationwide also said they strongly agree or somewhat agree that Social Security benefits will get reduced imminently by the federal government. "There's also an element of 'Get what you can,'" Ambrozy says. "When you add those fears to the misunderstandings that people have about the system, that has created a problem."

What Sponsors Can Do
Uncertainty about their retirement timing leads many people to feel anxious. As of May, among Americans who feel the most uncertainty about when they will stop working full time, one in three said they have anxiety and are concerned about their financial future, according to a survey by consumer finance research and analytics company Hearts & Wallets LLC in Rye, New York. Of those, 13% said they have high anxiety about their financial future.

The timing is actually good for offering pre-retirees Social Security education, Collinson says. "Research has found that major life events are when people are most likely to think about, and engage with, financial planning," she says. "With the pandemic, and its widespread health issues and upheaval in the employment market, this is a time when the audience is likely listening and seeking information. Many older workers may be thinking, 'Life's too short. Maybe this is a good time to retire.'"

***Americans most often start taking Social Security benefits at age 62, the earliest possible timing*.**

Consider these three steps to help:

- **Encourage pre-retirees to see their Social Security benefit estimate.** The Social Security Administration (SSA) used to mail an individualized benefit projection to American workers every year, but now people have to register on the SSA site and access it online. Those who do can see an individualized projection of the big difference in their monthly benefit if they start taking benefits at age 62, at their full retirement age or at age 70. "It is really important for people to do," Collinson says.

But people should keep in mind that the SSA's monthly benefit projections are estimates, based on assumptions about underlying factors such as that person's earnings history. "Estimates are only as good as the underlying assumptions," Collinson says. "Just like other retirement calculators, you should pay close attention to the underlying assumptions used."

- **Provide Social Security optimization resources.** A plan's recordkeeper can help provide education on Social Security basics and tools to help with decision-making. For example, Nationwide's Social Security 360 Analyzer tool allows a financial adviser to run scenarios of how retiring at different ages affects what an

individual gets in monthly benefits. “It allows employees to clearly see the impact of different timing decisions,” Ambrozy says. The adviser can then use the report the tool produces to help a pre-retiree decide when it is best to start taking benefits, depending on his individual situation.

- **Give pre-retirees help to make a realistic plan.** Only 24% of American workers have a written retirement plan, TCRS research finds, and Collinson encourages employers to work with their providers to help pre-retirees put a plan together.

Laura Varas, founder and CEO of Hearts & Wallets, says pre-retirees worried about their finances need to get a realistic handle on both their expenses in retirement and the retirement income they will require. “The No. 1 issue to resolve is that the average American devotes 40% of his spending to his home, and people can’t keep that up in retirement, so they need to optimize their housing situation before retiring,” she says of expenses. “No. 2 is getting their debt paid off. And third, people need to mentally prepare to spend less in retirement.” -*Judy Ward*
PLANSPONSOR, www.plansponsordigital.com, August-September 2020.

12. DID SOMEONE TELL YOU TO PAY WITH GIFT CARDS? IT’S A SCAM:
Maybe someone said you’ve won the lottery, a prize or sweepstakes. Or they claim to be from the government and tell you there’s a problem with your Social Security number. And, to collect your winnings or solve your problem, you have to pay with gift cards. But here’s the thing: anyone who insists that you pay by gift card is always a scammer.

Learn more by watching this video about how to avoid gift card scams and how to report them. Also, read more about paying scammers with gift cards to be sure you know how to avoid traps.

If you paid a scammer with a gift card, tell the company that issued the card right away. When you contact the company, tell them the gift card was used in a scam. And then report it to the FTC. Remember to keep the gift card itself and the gift card receipt, and, have them available when you contact the company and the FTC.

To stay up to date on scams that could affect your community, sign up for the FTC’s Consumer Alerts. Traci Armani, Consumer Education Specialist, Federal Trade Commission, www.consumer.ftc.gov, September 11, 2020.

13. IRS ADDS SIX MORE FORMS TO LIST THAT CAN BE SIGNED DIGITALLY; 16 NOW AVAILABLE:
On August 28, the IRS announced that it would temporarily allow the use of digital

signatures on certain forms that cannot be filed electronically. Today, the agency added several more forms (PDF) to that list.

The IRS made this decision to help protect the health of taxpayers and tax professionals during the COVID-19 pandemic. The change will help to reduce in-person contact and lessen the risk to taxpayers and tax professionals, allowing both groups to work remotely to timely file forms.

The IRS added the following forms to the list of those being accepted digitally:

- Form 706, U.S. Estate (and Generation-Skipping Transfer) Tax Return;
- Form 706-NA, U.S. Estate (and Generation-Skipping Transfer) Tax Return;
- Form 709, U.S. Gift (and Generation-Skipping Transfer) Tax Return;
- Form 1120-ND, Return for Nuclear Decommissioning Funds and Certain Related Persons;
- Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts; and
- Form 3520-A, Annual Information Return of Foreign Trust With a U.S. Owner.

The forms are available at IRS.gov and through tax professional's software products. These forms cannot be e-filed and generally are printed and mailed.

The below list was announced August 28, and all of these forms can be submitted with digital signatures if mailed by or on December 31, 2020:

- Form 3115, Application for Change in Accounting Method;
- Form 8832, Entity Classification Election;
- Form 8802, Application for U.S. Residency Certification;
- Form 1066, U.S. Income Tax Return for Real Estate Mortgage Investment Conduit;
- Form 1120-RIC, U.S. Income Tax Return For Regulated Investment Companies;
- Form 1120-C, U.S. Income Tax Return for Cooperative Associations;
- Form 1120-REIT, U.S. Income Tax Return for Real Estate Investment Trusts;
- Form 1120-L, U.S. Life Insurance Company Income Tax Return;
- Form 1120-PC, U.S. Property and Casualty Insurance Company Income Tax Return; and
- Form 8453 series, Form 8878 series, and Form 8879 series regarding IRS e-file Signature Authorization Forms.

The IRS will continue to monitor this temporary option for e-signatures and determine if additional steps are needed.

In addition, the IRS understands the importance of digital signatures to the tax community. The agency will continue to review its processes to determine where long-term actions can help reduce burden for the tax community, while at the same appropriately balancing that with critical security and protection against identity theft and fraud. IRS Newswire, IR-2020-206, www.irs.gov, September 10, 2020.

14. FOR THOSE WHO LOVE WORDS:
My tailor is happy to make a new pair of pants for me. Or sew it seams.

15. EVER WONDER:
If con is the opposite of pro, is Congress the opposite of progress?

16. INSPIRATIONAL QUOTE:
“The man who moves a mountain begins by carrying away small stones.” -Confucius

17. TODAY IN HISTORY:
On this day in 1962, the Justice Department filed 1st suit to end segregation in public schools

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