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## **1. PENSION FUNDING RELIEF, UNION PLAN REFORMS IN AID BILL NEAR ENACTMENT:**

Funding relief for single-employer pension plans and extensive reforms to help troubled multiemployer plans are included in COVID-19 aid legislation. Other provisions in the nearly \$2 trillion American Rescue Plan Act ([HR 1319](#)) expand funding relief for community newspapers and broaden the group of executives subject to the Section 162(m) limit on tax-deductible compensation.

### **Funding relief for single-employer plans**

The legislation contains two key forms of single-employer funding relief backed by [Mercer](#) and the pension community: continued

interest rate relief beyond 2020 and permanent lengthening of the amortization period for funding shortfalls.

To extend and enhance interest rate relief, the bill narrows the current 10% interest rate corridor to 5%, effective retroactively to 2020, and delays the phaseout of the 5% corridor from 2021 until 2026. At that point, the corridor will increase by 5 percentage points each year until it reaches 30% in 2030, where it will stay. In addition, a 5% floor will apply to 25-year interest rate averages to provide protection from extreme interest rate movements.

Sponsors can choose to disregard the interest rate relief for any plan year beginning before 2022 for all purposes, or solely for determining whether benefit restrictions apply under Internal Revenue Code Section 436. This gives sponsors the flexibility to take advantage of retroactively reduced contribution requirements without having to potentially reverse the application of benefit restrictions in earlier years.

The bill also calls for amortizing all funding shortfalls over 15 years, rather than seven years, and resetting all existing shortfall amortization bases to zero. This eases the pressure on plan sponsors that have seen funding shortfalls increase in response to low interest rates and market volatility, as Mercer CEO Martine Ferland said in a [letter](#) to lawmakers last year.

Unlike the language passed by the House, the final measure lets employers elect to reflect these amortization changes starting in any year from 2019 to 2022. The choice of when to reflect the

shortfall amortization changes is independent of when the sponsor chooses to reflect the interest rate relief.

### **Help for multiemployer pension plans**

A multiemployer plan can defer updating its status for a single plan year beginning in the period from March 1, 2020, through Feb. 28, 2022. A plan in endangered or critical status making this election for a plan year doesn't have to update its funding improvement or rehabilitation plan or schedules until the following plan year. Plans in endangered or critical status for plan years beginning in 2020 or 2021 can also opt for five more years to work on funding improvement or rehabilitation plans, and the 15-year amortization period increases to 30 years for investment losses and other losses attributable to the COVID-19 pandemic.

The bill provides for a temporary special fund to provide financial assistance -- in the form of a single lump sum payment -- to eligible, poorly funded multiemployer plans. Plans will need to apply for the relief by Dec. 31, 2025, and the fund cannot make any payments after Sept. 30, 2030. Plans can use the relief only to pay benefits and plan expenses, and the measure imposes conditions on how the assistance amounts can be invested. Plans receiving assistance have to reinstate suspended benefits and cannot apply for new benefit suspensions. The plans also will be deemed to be in critical status until the last plan year ending in 2051. The new provisions for direct financial assistance render unnecessary the special partition provisions found in earlier legislation, the Health and Economic Recovery Omnibus

## Emergency Solutions (HEROES) Act.

The measure also drops a HEROES Act provision that would have increased the PBGC's guaranteed benefit for multiemployer plans. Instead, the bill provides that multiemployer plan premiums will double from \$26 to \$52 per participant beginning in plan years starting after Dec. 31, 2030, and will be adjusted for inflation thereafter.

### **Modified definition of community newspaper plans**

The bill modifies the eligibility rules that apply to the special minimum funding standards for community newspaper plans enacted by the Setting Every Community Up for Retirement Enhancement (SECURE) Act ([Pub. L. No. 116-94](#)). The revised definition of community newspaper makes more plans eligible for the SECURE Act's special relief. Sponsors can continue to elect to apply the relaxed funding rules retroactively to plan years ending after Dec. 31, 2017.

### **Expansion of Section 162(m) highest-paid employees group**

To raise revenue and help offset the cost of the multiemployer plan reforms, the bill expands the group of executives subject to the Section 162(m) limit on the tax deduction a company can take for compensation paid to the CEO, CFO and the three next highest-paid officers. Under the bill, the \$1 million limit on deductible compensation also applies to a company's next five highest-paid employees beginning in 2027. These employees could later fall out of this second "top five" group.

This provision replaces a proposal in the House version of the bill that would have permanently frozen certain qualified retirement plan contribution and benefit limits at 2030 levels. Margaret Berger, Geoff Manville and Brian Kearney, Mercer, [www.mercer.com](http://www.mercer.com), March 10, 2021.

## **2. PENNSYLVANIA'S LARGEST PENSION SYSTEM INVESTIGATES POSSIBLE \$25 MILLION ERROR:**

In December 2020, the Pennsylvania Public School Employees' Retirement System (PSERS) kept employee contribution rates flat based on the slimmest of margins in its investment returns.

Those calculations may have been wrong.

That error, which may have cost taxpayers more than \$25 million in contributions, is now the subject of an investigation announced Friday night by the pension system that represents more than 250,000 current and retired public school employees.

At issue is a mandate, passed by the Legislature in 2017, that requires the pension system to increase employee contribution rates if it fails to meet certain benchmarks with its investments. The requirement is designed to safeguard taxpayers from some of the risk from the system's various investments.

In December, PSERS consulting actuary Buck reported that the system's investments had netted a 6.38 percent average annual rate of return over the nine previous fiscal years between 2011 and 2020. That meant employees were spared a contribution rate increase by slimmest of margins. The investment benchmark was

a 6.36 percent rate of return.

The risk mandate, of course, was a response to the system's chronic underfunding. According to the most recent estimates, which themselves are fungible, the system reported an unfunded pension liability of at least \$44 billion. That means it has just over 59 percent of the money necessary to meet current pension obligations.

On Friday night, the system's board of trustees announced an audit, including the possible hiring of an outside firm to investigate, after it was "made aware of an error regarding the reporting of investment performance numbers."

No further information about the extent of the error was available.

"PSERS will indicate when there is more to communicate," the statement from PSERS read.

Back in December, several members of the board -- including then-state Treasurer Joe Torsella -- raised concerns about the data.

The system has been the subject of long-running scrutiny for its chronic underfunding, choice of high-cost investments and lack of transparency.

Over the same nine years that PSERS reported an annualized 6.38 percent rate of return, the S&P stock market index of the United States' 500 largest companies returned an annualized return of 10.02 percent. Even if PSERS' figure *wasn't* erroneous,

it still fell short of the index.

To give you an idea what this means in real dollars, \$100 invested in the S&P 500 would have netted you \$234.28 versus \$174.48 using PSERS' investment strategy over the same 9-year period. And that period includes the March 2020 coronavirus-fueled downturn that saw the S&P 500 lose about a third of its value in the span of a month.

An index-fund strategy would result in far fewer costs compared to the \$515 million in investment expenses PSERS reported in 2020. These high-cost investments were the subject of a 2017 auditor general's report.

"PSERS doesn't seem to think spending more than \$416 million on investment management fees in 2016 is a big deal," then-Auditor General Eugene DePasquale said at the time. "It is mind-numbing that they want a pat on the back for reducing the fees from \$441 million in 2015."

Of course, those fees have increased since then.

The argument for PSERS' complex web of investments is risk avoidance: A more diversified portfolio -- even one with high fees that cut into returns -- is less vulnerable to market fluctuation. Wallace McKelvey, Penn Live Patriot-News, [www.pennlive.com](http://www.pennlive.com), March 13, 2021.

### **3. PENSION CUTS FOR CALIFORNIA PUBLIC EMPLOYEE FELONS UPHELD:**

No, California public employees can't commit felonies on the job and then keep their pensions earned while they were perpetrating their crimes.

"When misconduct turns into outright criminality, it is beyond dispute that public service is not being faithfully performed," the state Court of Appeal has concluded. "To give such a person a pension would further reward misconduct."

The February ruling in a "felony forfeiture" case from Contra Costa and a similar December appellate court ruling in one from Los Angeles County correctly reject arguments from two firefighters that they are entitled to their full retirement pay despite their felonious conduct while working.

Contra Costa Fire Capt. Jon Wilmot stole hundreds of items from county firehouses, everything from tools and toilet paper to binoculars and chain saws, costing his employer \$33,000. Los Angeles County Fire Capt. Tod Hipsher while on duty ran an illegal bookmaking operation and directed the physical intimidation of clients who failed to pay their gambling debts.

The law firm representing both firefighters has appealed the ruling in the Hipsher case to the state Supreme Court and plans to do the same in the Wilmot case. But they will have a tough fight there if the high court takes the case.

The Supreme Court already has ruled that reasonable modifications to retirement payments are permissible if they protect the integrity of the pension system. In 2019, the Supreme

Court upheld the state's elimination of a perk known as "air-time," which allowed employees to purchase extra pension service credit for time they hadn't actually worked.

Then in 2020 the high court upheld the elimination of "pension spiking" practices in Alameda, Contra Costa and Merced counties, where workers had been adding unused vacation or other deferred leave cashed out upon retirement to their base salary to boost their pension checks 25% or more.

The appellate and Supreme Court rulings on felony forfeiture, air-time and pension spiking all support the constitutionality of provisions contained in 2012 pension law changes championed by then-Gov. Jerry Brown.

While the rulings conclude that pension promises can be altered in some limited cases, none of them allow the state or local governments to modify the underlying pension calculation rates that have made public employee pensions in the state excessively costly.

Even if the court were to allow such changes, it's almost unthinkable that the labor-backed majority in the state Legislature would implement them. Thus, pension reformers' only possible route to meaningful change would be through an initiative to amend the state Constitution.

Meanwhile, at least Brown's modest, incremental, common-sense 2012 changes are sticking -- most recently with the felony-forfeiture ruling. By enacting that portion of the law, the appeals

court noted in the Wilmot case, “the Legislature moved to close an egregious loophole that allowed public funds to reward criminality.”

Indeed, the justices concluded, the punishment for felony behavior on the job is “rather temperate.” The punishment only applies to felonies related to the job. The employee does not lose all his or her pension benefits, only those since the time the crime was commissioned. And the employee gets back the portion he or she contributed toward the pension for that time.

Wilmot, for example, stopped working in 2012 and collected his full pension until after he entered his guilty plea. In April 2016, the Contra Costa retirement system retroactively reduced his payments from about \$105,000 a year to \$34,000 annually.

Wilmot lost 13 years of service credit, from when he started embezzling from his fire district in 2000 to his retirement at the end of 2012. And his pension was recalculated based on his salary before his crimes.

The pension system also retrieved about \$250,000 in overpayments Wilmot had already collected. But it gave him back a nearly identical amount for the pension payments he had made during the disallowed 13 years.

Wilmot’s attorneys argue that he’s being punished for a political reason, to assuage public outrage, rather than for a good public policy reason. The appellate court judges didn’t buy it.

Felony forfeiture, the justices ruled, quoting from the trial court judge, “take(s) back from Wilmot what he never rightfully earned in the first place -- namely pension rights for a period when he was violating his trust as an employee by embezzling from his employer.” It’s a small victory in the quest to fix California’s broken pension system. Daniel Borenstein, *The Mercury News*, [www.mercurynews.com](http://www.mercurynews.com), March 12, 2021.

#### **4. MURPHY’S PROMISE OF FULL PUBLIC-WORKER PENSION PAYMENT BREAKS 25 YEARS OF UNDERFUNDING:**

Fiscal experts agree it’s an impressive first step, but also warn it’s only a first step. Staying the course in coming years will be the real challenge.

Just the announcement that New Jersey wants to make a full public-worker pension payment during the state’s next fiscal year has thrilled labor union officials.

For more than two decades they’ve watched the state routinely short pension payments, allowing a huge unfunded liability to pile up.

“It is a stunning accomplishment and we’ve waited a really long time for someone to do it,” said Hetty Rosenstein, state director for the Communications Workers of America labor organization.

But for Gov. Phil Murphy -- and the governors who will serve after him -- the task only begins with that first full payment, which Murphy has promised the state will make during the fiscal year

that begins July 1.

From there, the challenge becomes figuring out how to continue funding full payments for years to come, or risk falling behind again, and looking like a homeowner who did a victory lap after making the first mortgage payment instead of the last.

“You can think of the unfunded liability as a mortgage,” said Charles Steindel, a former Department of Treasury official who now serves as resident scholar at Ramapo College’s Ansfield School of Business.

“It’s a debt owed by the state,” and it will take decades of level payments to, “pay off all the principal and interest,” Steindel said.

### **A history of underfunding**

Governors and lawmakers from both parties have been passing budgets that have underfunded the state pension system to varying degrees since 1996. That means they’ve effectively chosen to put other spending priorities or tax-cut initiatives ahead of fully securing the retirements of hundreds of thousands of government workers and retirees.

As a result, the pension system has become one of the nation’s worst-funded state retirement plans, with an unfunded liability that was allowed to soar to over \$100 billion according to some estimates. New Jersey is able to make payments to current retirees and, can do so for some time. But that unfunded liability raises questions about its ability to make good on the benefits for

employees in the decades to come.

Despite sincere efforts to change course, the state's recent history is filled with governors who've made big promises about pension funding in budget addresses and other major speeches that they ultimately couldn't stick to during ensuing fiscal years.

More than a decade ago, former Gov. Jon Corzine, a Democrat, pledged in a budget speech that his administration would "contribute at least \$1 billion to the pension fund for the next three years." That promise came around the same time he secured new contribution rates for workers and other changes at the bargaining table with unions.

But when the 2007-2009 Great Recession hit the state budget, Corzine was forced to retreat from his plan to ramp up pension funding over the long term.

### **Christie took shot at full funding**

After taking office in early 2010, Republican Gov. Chris Christie put forward an ambitious plan to get up to full funding of the pension system. Christie also worked with Democrats in the Legislature to make other changes to benefits for public employees through legislation, including increased rates for workers' contributions and a halt in cost-of-living adjustments.

"The pensions of every state worker, of every teacher, and of every retired municipal employee are more secure today," Christie told lawmakers in 2012. "By the tough choices we made

together, we saved their pensions.”

However, a slow recovery from the Great Recession and an unexpected revenue dip forced Christie to move off a seven-year state pension funding ramp-up. It was eventually replaced with a more modest, 10-year ramp-up that put off full payments until after Christie was due to leave office.

Murphy, a Democrat who took office in early 2018, has followed Christie’s 10-year schedule of escalating payments throughout his first three years in office. That means, like his predecessors, Murphy has also yet to make a full pension payment, although he’s come the closest.

But in a nearly \$45 billion budget proposal released last month, Murphy — who faces reelection in November — said he now plans to make the full payment during the 2022 fiscal year. The estimated cost of the full payment is \$6.4 billion, according to the state’s actuaries.

“Making the payment is keeping our word to hundreds of thousands of retirees who depend on their pensions,” Murphy said during a budget address.

“It means keeping our word to families all over our state who were made promises by governors who then turned their back on them,” he said.

### **Dems on board with full payment**

For their part, fellow Democrats who control the Legislature are

also indicating they are on board with funding the full payment in the next fiscal year, which would be one year ahead of schedule.

Assembly Speaker Craig Coughlin (D-Middlesex) said in a statement issued in response to Murphy's budget address that making a full payment would be "honoring the state's commitment to our current and past workforce and demonstrating sound fiscal policy."

Senate President Steve Sweeney (D-Gloucester) also praised Murphy in a recent interview with NJ Spotlight News in which he also looked back at his own nearly two decades worth of work on pension issues. And at times, he noted some of those efforts put him in conflict with labor leaders, including his collaboration across party lines with Christie.

"I'm just really proud that we got to this point, and thankful that Gov. Murphy made the decision to get to this a year sooner," Sweeney said.

"It's an absolutely great outcome and was worth every fight that I had," he added.

For Rosenstein, the CWA union leader who has long pushed for full pension funding, the accomplishment comes just as she is readying for her own retirement. But she said a full pension payment will mean a lot for rank-and-file government workers who've been putting in long hours serving on the front lines during the ongoing health crisis.

“The importance just can’t be understated,” Rosenstein said. “It means that people will actually see their pensions.”

### **Budget savings tied to full payment**

In addition to helping improve the long-term health of the pension system, Treasury officials are also projecting some significant budget savings can be generated by getting to full funding a year ahead of schedule.

Those savings, which will total an estimated \$860 million over the next three decades, are based on the way the state’s unfunded liability accrues over the long term, the officials said.

Murphy’s administration should also be in a good position to manage the initial step up to full pension funding, thanks to a combination of factors, including money the state borrowed last year when it was expecting significant revenue losses would be triggered by the pandemic.

In all, the governor is planning to open the 2022 fiscal year with more than \$6 billion in reserve, and his administration is also projecting modest year-over-year revenue growth during the state’s expected long-term recovery from the pandemic.

New Jersey has been making pension payments on a quarterly basis since a 2016 policy change was enacted by Christie. While the size of those quarterly payments is also now due to grow, Treasury officials say they anticipate having enough cash on hand to cover each payment throughout the 2022 fiscal year.

## **Unclear future for full pension payments**

But New Jersey doesn't do multiyear budgeting, so just like his predecessors, Murphy has not clearly demonstrated exactly how the state can maintain full pension funding in future years. Thanks to another reform enacted by Christie, dedicated revenues from the state Lottery will pick up at least some of the tab.

Asked about the long-term funding concerns, Treasury officials pointed to the millions of dollars in projected savings from making a full payment a year ahead of schedule. They also recently announced plans to make several pay-as-you-go capital appropriations during the 2022 fiscal year instead of taking on the costs of financing that spending with more long-term debt.

"We are taking a number of responsible steps with the proposed fiscal year 2022 budget that will help us manage expenditures into the fiscal year 2023 budget and beyond," said Treasury spokeswoman Jennifer Sciortino.

Some help in the near term could also come from the federal government since New Jersey and other states are about to receive significant aid from the recently approved American Rescue Plan Act that could help free up state resources or further pad the surplus.

Steindel, who served as Treasury's chief economist during Christie's tenure, also noted the state's initial step up to full pension funding will be the "big pill to swallow," and that the cost of a full pension payment as a percentage of overall spending will

eventually shrink as revenues grow over time.

“The achievement of full funding is sustainable, barring another economic crisis in the near term,” Steindel said. “I think it’s reasonably sustainable.”

While other governors have shown there’s no guarantee the state will make its full pension contributions long into the future -- even after promising to do so -- Murphy underscored the cumulative pain caused by chronic underfunding during a keynote address he delivered virtually last week to a leadership conference organized by the Penn Institute for Urban Research and the Volcker Alliance.

“Had we paid our full pension (payment) every year between ’96 and this budget, the number I would have put up this year would have been \$800 million,” Murphy said. “If you do the math, we are, in our (fiscal year 2022) budget, paying \$5.6 billion, in one year’s budget, for the delinquency of the past 25 years.” “But I’ll be damned if I’m going to kick the can down the road anymore,” he said. John Reitmeyer, NJ Spotlight, [www.njspotlight.com](http://www.njspotlight.com), March 15, 2021.

## **5. TEXAS COUNTY & DISTRICT REDUCES ASSUMED RATE OF RETURN TO 7.5%:**

Texas County & District Retirement System's board of trustees approved lowering the long-term assumed rate of return for the \$35.7 billion system to 7.5% from 8% during a meeting Thursday.

"TCDRS' long-term outlook anticipates rates and returns (will)

remain below historic norms. Expectations of returns have decreased across all asset classes ... due largely to rate cuts and unprecedented stimulus resulting from the pandemic," a news release from the system said Thursday.

CIO Casey Wolf said in an email Friday that the fund's asset allocation was adjusted "to improve portfolio returns by increasing private equity and direct lending by 5 (percentage points) each," bringing the target for private equity to 25% and direct lending to 14%.

Mr. Wolf said funding for the new private equity and direct lending targets came primarily from public equity, which was reduced to 25% of plan assets from 32% as of Dec. 31, and from hedge funds, which now have a 6% allocation, down from 10%.

The lower investment return assumption "will result in increased employer contribution rates," the release said. "TCDRS is using tools such as reserves to help smooth the impact of this adjustment on employer rates."

TCDRS also reminded the more than 800 employers that participate in the system that they "have the flexibility and local control to annually adjust their benefits to meet workforce needs and budgets," according to the release. Pension & Investments, [www.pionline.com](http://www.pionline.com), March 12, 2021.

## **6. OC'S PENSION INVESTMENT RETURN QUESTIONED, EXPLAINED:**

After raising concerns about the return on the town's pension plan

investment portfolio in recent years, resort officials this week got a primer on how the process works.

Last year, a decidedly challenging financial year because of COVID-19, Ocean City was able to avoid going to the general fund to cover shortcomings in the combined employee pension funds through some creative financing. However, concerns were raised on the return on the town's investments in stocks, mutual funds and other assets which help fuel the pension funds.

Ocean City's stated target goal for return on investment is 7%, but there have been years recently, especially during the bustling pre-COVID economy, when the pension fund investments have fallen short of that goal. All in all, there have been years when the investments have exceeded the goal, but for the Mayor and Council, the years when the return falls short of the 7% mark raised concerns.

Last year, during the debate about how to reconcile the town's contribution to the two pension funds, a general employee fund and a public safety fund, the return-on-investment issue was raised and the Mayor and Council questioned if it was time to shop around for a new investment counselor. On Tuesday, Morgan Stanley Senior Vice President and Senior Investment Counselor David Esham laid out the town's investment policy and the layers of management that go into the investment strategy.

It's complicated to be sure, but in simplest terms, town employees invest in their own retirement pensions through contributions from their salaries over their years of service. The town also

contributes to the pension funds each year to ensure the balances are stable enough and strong enough to support the level of funding needed to pay employee pensions over the long haul.

The town's Pension Committee, or the trustees, make investments from the pension funds to ensure they grow at a rate needed to meet the demand. The pension committee makes assumptions based on market conditions and sets a goal for return on investments in the stock market, for example. That target return on investment rate is set at 7%. Again, however, there have been years when the town's pension fund investments have fallen short of that goal.

Esham pointed out the 7% goal is an average over time and there would naturally be times when the investment returns fall short of the goal and times when they exceed the goal. He suggested the Mayor and Council take a broader look, rather than focusing on a single year, or even one quarter of a single year.

"It's a set of guidelines the city and its pension trustees have put together," he said. "We don't want the market wagging your pension plan, and you don't want to make emotional decisions either."

Esham explained the layers involved in the town's pension investment strategy including the pension committee, or trustees, the investment consultant, and ultimately the investment managers.

“Together, they gather all of the information and make recommendations to the trustees, then the trustees report to the council,” he said. “In my experience, the town has taken an aggressive approach, but has also been prudent with the budget. It’s a fine line.”

As the town’s investment consultant, Morgan Stanley oversees the investment managers, which make the tough decisions on how to grow and diversify the town’s overall investment portfolio. The hiring and firing of investment managers is all performance-driven, said Esham.

“They determine how to build your portfolio and try to get to your 7% target with the least amount of risk,” he said. “They try to find asset allocations that get you to that 7% with the least amount of volatility.”

During last year’s debate, some on the council questioned why the town’s investments often fell short of the 7% goal, when their own personal investments were doing so much better.

“The question we often hear is why isn’t this doing as well as my growth fund, or why isn’t this doing as well as the Standard and Poor’s 500?” Esham said. “The problem with these questions is we can’t assume the same amount of risk. We have a balanced portfolio and we don’t have that level of risk.”

Of course, having pension funds at a level of 100% is ideal, but it’s essentially a pipe dream. Instead, municipalities such as Ocean City attempt to nudge was close to that 100% mark as

possible. The good news is, in recent years the town has been steadily in the 80% range and the percentage could go higher.

“My guess is we’ll be back in that 90% bucket,” said Esham. “We’re significantly better than most. Most municipalities are in the 70% range.”

Nonetheless, Councilman Mark Paddack continued to hold the consultant’s feet to the fire despite recent growth in the funds. “You just said the public safety and general employee funds have grown by \$50 million,” he said. “How much did we lose in the previous years? There have been times when you guys have never hit the 7% mark. That’s how we got to this point.” Shawn Soper, <https://mdcoastdispatch.com>, March 11, 2021.

## **7. CHINA TO RAISE RETIREMENT AGE IN STAGES:**

China plans to raise retirement ages gradually over a number of years instead of in a drastic one-time change, a government researcher said last week, without providing any detail on when the changes might start.

When the retirement age starts being lifted, it will be by a few months every year, or by a month every few months, according to Jin Weigang, head of the Chinese Academy of Labor and Social Security under the Ministry of Human Resources and Social Security. Mr. Jin didn't say when the changes would begin, but the current five-year plan calls for "raising the retirement age in a phased manner."

"People in different age groups will be retiring at different ages," Mr. Jin said in an interview with the state-run Xinhua News Agency published March 13. "For example, in the first year of the policy's implementation, female workers who were originally scheduled to retire at 50 will retire one month or a few months after 50."

The policy should have a certain degree of flexibility to accommodate various kinds of workers' desires to retire at different ages, Mr. Jin said. It will not be a "one-size-fit-all" plan and should leave room for individuals who wish to retire early, he said.

Mr. Jin's comments give a rare glimpse into the official thinking behind the controversial proposal to postpone retirement, which was outlined in China's 14th five-year plan as an antidote to the rapidly aging population and shrinking workforce. Male white-collar workers currently retire at 60 and females at 55, based on laws enacted in 1978. By Bloomberg, *Pension & Investments*, [www.pionline.com](http://www.pionline.com), March 15, 2021.

## **8. WHERE AMERICANS ARE MOVING - AND WHY THEY REALLY ARE DOING IT:**

There's an old joke about economists that I've always liked. A junior professor goes to his senior colleague with a brilliant new idea. The older man dismisses it. "That may be fine in practice," he sniffs, "but it will never work in theory."

Economists are like that, at least many of them. They don't like to

have reality intrude on their abstractions. One of the best examples has to do with mobility. Years ago, I read an article by a prominent economist downplaying the problem of a small-town factory that spews out pollution. What's the big deal, he asked. There must be another town nearby without a soot-belching factory. The residents of the first town could just move over there. Pretty soon the polluter would get the idea.

It works in theory. But it isn't the way most people behave. They don't like the idea of uprooting themselves. This may be because they don't want to leave their friends and relatives, because they cling to hometown memories and traditions, or maybe because they just don't feel like cleaning out the garage. In any case, they don't move. Or if they do, they don't go far away.

The question of mobility has come up a lot in the past year as the entire country has been forced to deal with the ravages of the coronavirus. Economists and their libertarian acolytes have forecast an outpouring of affluent Americans from virus-plagued cities to safer rural climes. Free-market polemicist Kristin Tate exulted recently about a flood of "fresh college graduates and new parents" lighting out for healthier territory. "Employees who were once tethered to corporate buildings downtown can now trade Brooklyn for Mayberry."

We have heard this before. Back in 1997, the British economist Frances Cairncross published her widely read book *The Death of Distance*, which suggested that breakthroughs in communication would allow knowledge workers to do their jobs at home and that

the result would be an emptying out of urban downtowns and a stampede to smaller, quieter places. It didn't happen. Downtowns didn't shrink; they grew. As recently as 2018, the share of Americans working remotely was somewhere between 3 percent and 5 percent.

Nor did Americans do much relocating after the Great Recession began in 2008. Their most common response was to stay where they were, even if there might be a glimmer of an opportunity lurking somewhere in a distant corner of the country.

The pandemic situation, of course, could be different. Freshly minted college graduates, free to work at home, might have the option of giving up Brooklyn for Mayberry. But they wouldn't do it to escape the plague, at least not if they kept up with what was going on. COVID-19 infection rates haven't been any better in most of rural America than they have been on big-city streets. As of the end of February, Surry County, N.C., where the fictional Mayberry was located, had suffered 140 virus deaths in a population of just a little over 70,000.

We actually have quite a bit of data on where people have been moving and why. There has been an outflow from many urban neighborhoods, but it hasn't been very large. Last June, [a careful study by the Pew Research Center](#) found that 3 percent of Americans reported moving permanently or temporarily for reasons related to the coronavirus. In November, the number was up to 5 percent. That's not a trivial number of people, but it's far short of a national exodus. [A subsequent study by the Cleveland](#)

Federal Reserve reached a similar conclusion, reporting somewhat cautiously that the statistics on people leaving cities "probably would not fit most definitions of an exodus." (I'm grateful to the indefatigable Joe Cortright of *City Observatory* for pointing out the Cleveland study.)

The numbers vary considerably from one region to another. San Francisco, for example, does seem to have seen departures of substantial proportions. An estimated 80,000 residents left in 2020, a 77 percent increase from the previous year. But just as interesting as that number is the data on where they were going. By far, the largest destination of people leaving San Francisco last year was just across the bay, in Oakland and surrounding Alameda County. The three next most common destinations were all in the Bay Area as well. If you dig further down the list, you find Denver; Portland, Oregon; and Austin, Texas, as the most frequent targets of long-distance movement. But they were very far down — none of them even made it into the top 15.

What this strongly suggests is that these migrants weren't leaving because of the virus itself. You wouldn't move from San Francisco to Oakland to avoid getting sick. It's much more likely that you would make such a move because the San Francisco economy was in trouble and jobs were disappearing. And that's what the recent studies have tended to confirm. The Pew study concluded that on the national level, as of November, even among the subset of those who had moved during the year only about one in seven did so to avoid a higher risk of getting the

virus.

### **BUT HERE'S SOMETHING ELSE THE STUDIES HAVE TOLD**

**US:** Most cities that lost population in 2020 didn't lose it because of people leaving. They shed population because newcomers weren't coming. In New York City, according to a McKinsey study, the ratio of arriving workers to departing ones was down 27 percent. This, too, is only common sense. Why would you move into New York when jobs were disappearing there? Similar numbers apply to Los Angeles, Boston, and Seattle.

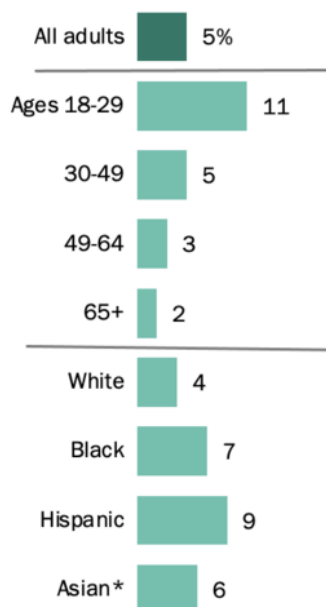
This has the makings of a significant event. Nearly all the big cities that gained or held onto population numbers in the past decade did so because of immigrants arriving from outside the United States. If they stop coming for an extended length of time, big-city populations could drop significantly even if the mass exodus continues to be a myth.

Recent research also tells us something about just who the urban emigrants have been. They haven't been middle-aged people with families. For the most part, they haven't had middle-class incomes. They have been young people, unattached and economically stressed. Among Americans age 18-29, Pew reported, 11 percent said they had moved in 2020 for virus-related reasons. Within the low-income population cohort, the figure was 9 percent -- roughly twice as high as the overall U.S. number.

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## About one-in-ten young adults say they moved due to COVID-19

*% saying they moved permanently or temporarily for reasons related to the coronavirus outbreak*



\*Asian adults were interviewed in English only.

Note: White, Black and Asian adults include those who report only one race and are not Hispanic. Hispanics are of any race.

Source: Survey of U.S. adults conducted Nov. 18-29.

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But even these figures are misleading. Very few of these movers were uprooting themselves and striking out for new locales. Many of them were college students whose campuses had closed down due to virus concerns and who were moving back in with their parents on a temporary basis. In June, a full 61 percent of those who had relocated for pandemic reasons had moved in with one or more family members. In November, the number was 42 percent.

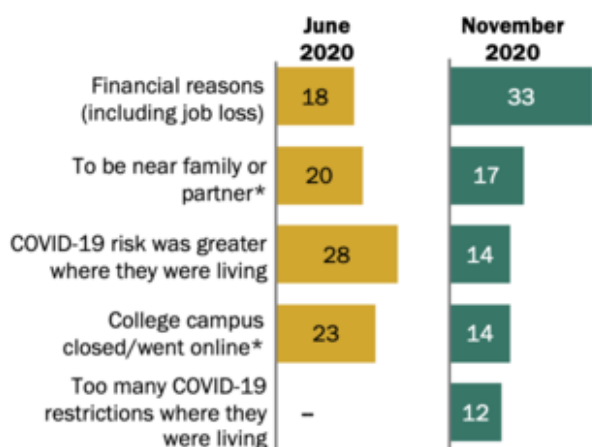
**AS BIG A MISTAKE AS IT IS** to take at face value windy speculation about a large-scale rearrangement of the American population, it is also a mistake to deny that what has been happening will have long-term consequences. As Richard Florida and others have pointed out, our big cities -- even the successful ones -- have been losing traditional working-class residents for quite a few years now. The most attractive cities have gradually become enclaves of affluent professionals and modestly paid service workers. This service class has largely been composed of immigrants. If the immigrants remain at least temporarily reluctant to move into cities, we are likely to face not only a shortage of urban workers but a decline in demand for housing in many urban neighborhoods.

In that case, we may see central-city-based corporations having to look harder for employees, even those in lower-level jobs, and to pay them significantly more than they did before the pandemic. Perhaps even more strikingly, we are likely to see -- are already seeing in some places -- an increasing number of residential vacancies and a corresponding reduction in rents designed to fill the units up.

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## Financial reasons were more important for COVID-19 movers who were surveyed later in 2020

Among those who say they moved due to the coronavirus outbreak, % saying the most important reason was ...



\*Wording change means numbers may not be comparable. See topline for questionnaire wording.

Note: The category of "too many COVID-19 restrictions" was not offered to survey respondents in June. Not all reasons shown; in November 2% volunteered they needed more space and 1% volunteered they could work remotely. Financial reasons include job loss (8% in June and 17% in November) and other financial reasons (10% in June and 15% in November); numbers may not add to total due to rounding.

Source: Surveys of U.S. adults conducted June 4-10, 2020, and Nov. 18-29, 2020.

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That could tilt the urban landscape in a couple of different ways. Over the long term, it could make central cities more attractive to immigrants and restore the substantial in-migration numbers of the pre-virus decade. Or it could fuel a round of arrivals by a new crop of young professionals attracted by the newly available units and declining rents. For decades, one of the most attractive things about New York City was its affordability for young people from all over America who dreamed of plunking themselves down in Gotham, making it in journalism or publishing or show business

and having a good time in the process. Over the past 10 years, that dream has largely died. New York has just been too expensive. In a post-pandemic America, it may become affordable again for the ambitious and starstruck.

Or perhaps the urban future will be something entirely different. I will leave it to the economists to make those predictions. But I won't bet any money on what they predict. Alan Ehrenhalt, *GOVERNING*, [www.governing.com](http://www.governing.com), March 10, 2021.

## **9. ANNUITIES AREN'T THE ONLY OPTION FOR GENERATING RETIREMENT INCOME:**

When the Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in late 2019, many in the industry celebrated it as the first step toward widespread annuity adoption. Yet a little more than a year later, only a small fraction of plan sponsors have embraced the option, according to experts.

Eric Levy, executive vice president of AIG Retirement Services, points to the COVID-19 crisis as a reason why adoption has stalled. As vaccination rates increase and workforces open up, he expects a gradual implementation of the options. “We’ve all been dealing with [the pandemic] for the past 12 months, so I think what you’ll see is a slow rise in conversation and a learning curve, and ultimately, longer-term levels of adoption.”

Until then, plan sponsors can offer a variety of services and tools for participants to gauge their future retirement income. For employers that are not ready to adopt a specific solution, Jennifer

DeLong, senior vice president, managing director and head of defined contribution (DC) for the Americas at AllianceBernstein, encourages them to rethink retirement planning communication materials. “Reframe this to not just talk about the savings phase, but also about how the plan can be used to create that retirement income stream,” she says.

Employers can provide pieces of educational content and retirement income calculators--both of which are often available through recordkeeper platforms and participant websites, DeLong says. For example, resources on Social Security and when to tap into those funds help participants understand its role in their retirement income.

Levy notes that participants face a series of decisions when withdrawing income from their accounts. Offering educational resources and guides can mitigate some of that complexity. “There are a lot of complicated decisions to make, and these tools help [participants] organize these decisions and start to understand the various what-if scenarios,” he says.

The effects of the pandemic have underlined a need for holistic financial wellness programs, another benefit DeLong recommends plan sponsors implement if they haven’t already done so. Plan sponsors might also provide different types of advisory services throughout the working life of the participant and in the retirement phase.

“All of that feeds into helping participants with how to create a basic budget, how to create emergency funds, how to save for

college for your child,” DeLong says. “All of those basics in getting your financial life into better shape can free up additional discretionary dollars that can be saved for retirement.”

Providing financial advice allows participants to build a plan for generating retirement income while organizing their assets. Participants who set up a one-on-one meeting with a financial adviser can set specific goals and objectives for their retirement years, while learning about [multiple retirement income options](#), such as guaranteed minimum withdrawal benefits (GMWBs). A GMWB promises returns on a policyholder’s retirement income throughout all types of market activity.

As employers encourage participants to stay in the company-sponsored plan throughout retirement, more are questioning what investment options are sustainable for retirees. “With that philosophy, that can lead to the question of whether they have the right [investment options for retirees](#) if they do stay in the plan,” DeLong adds.

Levy adds a similar note, saying more recordkeepers are implementing interactive tools that allow participants to understand the impacts of their financial decisions. As longevity rates have increased, the need for overall financial planning--especially in retirement--has surged. Urge participants to think about how they want to accumulate wealth for retirement and offer them resources to come up with a plan, Levy says.

“The question that every individual needs to ask is, ‘How do I take these assets that I’ve accumulated over the lifetime of my career

and turn this into my paycheck? How do I take those assets and turn them into income?” he says. Amanda Umpierrez, *PLANSPONSOR*, [www.plansponsor.com](http://www.plansponsor.com), March 12, 2021.

## **10. SOCIAL SECURITY BENEFITS FORECAST; COLA LIKELY TO JUMP TO 3% IN 2022:**

The cost of living adjustment would be fueled by rising gas prices and the recently passed stimulus package that could spur additional consumer spending.

**Social Security benefits should rise around 3% next January, up from the increase of 1.3% seen this year**, according to an early cost of living adjustment (COLA) calculation by the *Kiplinger Letter*.

This would be the largest increase since 2012 when Social Security benefits ticked up 3.6%.

**A range of prices that had been depressed by the pandemic last year are rebounding.** Gasoline prices have risen 23% since the beginning of the year. Medical care costs are also making up for lost time as well. As the economy opens up more fully with the retreat of the pandemic, more prices are likely to reclaim some lost ground, such as air fares and sporting events.

The 1.3% increase for 2021 was the smallest COLA since 2017.

COLAs are calculated using the Consumer Price Index for Urban Wage Earners and Clerical Workers (similar to, but not exactly the same as, the urban dwellers' consumer price index used in

inflation reporting). If prices don't increase and even fall, the COLA is zero. That happened in 2010 and 2011, as the economy struggled to recover from the Great Recession, and again in 2016, when plummeting oil prices swept away any chance of a COLA for that year. David Payne, *Kiplinger*, [www.kiplinger.com](http://www.kiplinger.com), March 10, 2021.

## **11. TAX TIME GUIDE; GET CREDIT FOR IRA CONTRIBUTIONS MADE BY APRIL 15 ON 2020 TAX RETURNS:**

The Internal Revenue Service notes that taxpayers of all ages may be able to claim a deduction on their 2020 tax return for [contributions to their Individual Retirement Arrangement \(IRA\)](#) made through April 15, 2021. There is no longer a maximum age for making IRA contributions.

An [IRA](#) is designed to enable employees and the self-employed to save for retirement. Most taxpayers who work are eligible to start a traditional or Roth IRA or add money to an existing account.

Contributions to a [traditional IRA](#) are usually tax deductible, and distributions are generally taxable. There is still time to make contributions that count for a 2020 tax return if, they are made by April 15, 2021. Taxpayers can file their return claiming a traditional IRA contribution before the contribution is actually made. The contribution must then be made by the April due date of the return. While contributions to a [Roth IRA](#) are not tax deductible, qualified distributions are tax-free. In addition, low-

and moderate-income taxpayers making these contributions may also qualify for the Saver's Credit.

Generally, eligible taxpayers can contribute up to \$6,000 to an IRA for 2020. For someone who was 50 years of age or older at the end of 2020, the limit is increased to \$7,000. The restrictions on taxpayers age 70 1/2 or older to make contributions to their IRA were removed in 2020.

Qualified contributions to one or more traditional IRAs are deductible up to the contribution limit or 100% of the taxpayer's compensation, whichever is less.

For 2020, if a taxpayer is covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is generally reduced depending on the taxpayer's modified adjusted gross income:

Single or head of household filers with income of \$65,000 or less can take a full deduction up to the amount of their contribution limit. For incomes more than \$65,000 but less than \$75,000, there is a partial deduction and if \$75,000 or more there is no deduction.

- Filers that are married filing jointly or a qualifying widow(er) with \$104,000 or less of income, a full deduction up to the amount of the contribution limit is permitted. Filers with more than \$104,000 but less than \$124,000 can claim a partial deduction and if their income is at least \$124,000, no deduction is available.

- For joint filers, where the spouse making the IRA contribution is not covered by a workplace plan, but their spouse **is** covered, a full deduction is available if their modified AGI is \$196,000 or less. There's a partial deduction if their income is between \$196,000 and \$206,000 and no deduction if their income is \$206,000 or more.
- Filers who are married filing separately and have an income of less than \$10,000 can claim a partial deduction. If their income is at least \$10,000, there is no deduction.

Worksheets are available in the [Form 1040 Instructions PDF](#) or in [Publication 590-A, Contributions to Individual Retirement Arrangements PDF](#). The deduction is claimed on [Form 1040, Schedule 1 PDF](#). Nondeductible contributions to a traditional IRA are reported on [Form 8606, Nondeductible IRAs PDF](#).

Even though contributions to Roth IRAs are not tax deductible, the maximum permitted amount of these contributions begins to phase out for taxpayers whose modified adjusted gross income is above a certain level:

- For filers who are married filing jointly or qualifying widow(er), that level is \$196,000.
- For those who file as single, head of household, or married filing separately and did not live with their spouse at any time during the year, that level is \$124,000.
- For filers who are married filing separately and lived with their spouse at any time during the year, any amount of modified AGI reduces their contribution limit.

The [Saver's Credit](#), also known as the Retirement Savings Contributions Credit, is often available to IRA contributors whose adjusted gross income falls below certain levels. In addition, beginning in 2018, designated beneficiaries may be eligible for a credit for contributions to their [Achieving a Better Life Experience \(ABLE\) account](#). For more information on annual contributions to an ABLE account, see [Publication 907, Tax Highlights for Persons With Disabilities PDF](#).

Taxpayers should use [Form 8880, Credit for Qualified Retirement Savings Contributions PDF](#), to claim the Saver's Credit, and its instructions for details on figuring the credit correctly.

Taxpayers can find answers to questions, forms and instructions and easy-to-use tools online at IRS.gov. They can use these resources to get help when it's needed, at home, at work or on the go.

This news release is part of a series called the [Tax Time Guide](#), a resource to help taxpayers file an accurate tax return. Additional help is available in [Publication 17, Your Federal Income Tax For Individuals PDF](#). IRS News Release IR-2021-53, [www.irs.gov](http://www.irs.gov), March 11, 2021.

## **12. INDOOR TV ANTENNA? MAKE SURE YOU KNOW WHAT YOU'RE GETTING:**

Any TV set made since 2007 has a digital tuner that lets you watch over-the-air (OTA) channels for free, if you get an inexpensive indoor antenna. These channels usually include local

broadcast channels, including high-definition or “HDTV” signals. But an OTA antenna won’t get you free “premium” channels, which you can only get from cable, satellite, or online content services. Don’t believe an OTA antenna ad that says it can.

Today the FTC announced that it sued a company for allegedly lying about the performance of its indoor antennas and signal amplifiers. The company sold products under the TV Scout, SkyWire, SkyLink, and Tilt TV brand names. Its antenna ads claimed that people could stop paying for cable or satellite TV and still get all of their favorite TV channels, including premium channels. That was simply not true, the FTC says. The company’s ads for amplifiers--in English and Spanish--claimed that people could use those with its antennas to get even more stations, including premium or subscription channels, like HBO and AMC, for free. The FTC says that these ads were also false. The FTC also said that some of the ads were made to look like “news reports,” and some of the consumer endorsements were made up.

Before you cut the cord and buy an OTA antenna and related products, remember:

- Read the FCC’s tips about TV antennas and getting good reception.
- Only trust news reports about a product when they come from a credible news source, and on its own website or news feed.
- When you look at an online endorsement or review, think

about where it's posted and what you know about who wrote it. Some endorsements and reviews are fake or misleading. It can be hard to tell them apart from the real ones, so it's better to check several sources. And expert reviews from trusted websites are a good way to go.

If you spot a problem, report it to the FTC at [ReportFraud.ftc.gov](https://www.reportfraud.ftc.gov). Rosario Méndez, Attorney, Division of Consumer and Business Education, FTC, [www.ftc.gov](https://www.ftc.gov), March 15, 2021.

**13. PARAPROSDOKIAN:**

Why does someone believe you when you say there are four billion stars but check when you say the paint is wet?

**14. QUOTE OF THE WEEK:**

"A good listener is usually thinking about something else." -Kim Hubbard

**15. TODAY IN HISTORY:**

On this day in 1818, US Congress approves 1st pensions for government service.

**16. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.**