



## **1. FLORIDA'S PENSION DEBT - \$36 BILLION AND CLIMBING - MUST BE CONTROLLED:**

The pension plan that provides retirement benefits to over one million Florida teachers and state and local government workers has over \$36 billion in public pension debt. If nothing is done to address this debt and the pension system's rising costs, Florida will struggle to deliver the pension benefits that workers are counting on and taxpayer funds will be diverted away from other priorities like education and infrastructure.

And Florida's pension problem is rapidly getting worse. In just the last two years, the Florida Retirement System (FRS) has added \$6 billion in unfunded liabilities.

Twenty years ago, FRS had a surplus of \$13.5 billion in funds for retirement benefits and was 115 percent funded. Today, FRS stands at just 82 percent funded, meaning it has only 82 cents for every dollar it owes in retirement benefits.

The reasons for this drastic shift are simple: the FRS pension fund was hammered by the financial crisis of 2008 and it never really recovered. Increases in market volatility and an overall decline in investment returns have hurt the system's ability to grow its assets. This problem was further exacerbated by several years of inadequate plan contributions on behalf of the state. And economic experts expect institutional investment returns to be depressed even after the U.S. economy recovers from the COVID-19 crisis. In short,

the problem isn't going to get better on its own.

FRS pension plan managers and state lawmakers have made noteworthy steps to try to improve the stability of FRS by adopting more conservative investment assumptions in recent years, but more action is desperately needed. Under the best-case scenario (a stable economy) FRS debt will spike to \$45 billion by 2050. But under more realistic scenarios, which are more in line with FRS's economic experience in the last 20 years, [Florida's pension debt will spike to over \\$80 billion by 2050](#). This could triple the full cost of the pension plan for taxpayers.

Once earned, pension benefits are legally guaranteed by the state, and they must be paid no matter what. Simply put, this debt cannot be swept under the rug away by state lawmakers, it must be paid one way or another.

As FRS funding continues to decline, the state will be forced to increase the amount they are putting towards the pension plan each year. This could result in increased taxes or requirements that public employees put more of their paycheck towards paying off pension debt. Furthermore, this debt could cause the state to face a credit rating downgrade, which raises the cost of issuing bonds that are used for things like transportation investments.

And pension debt is particularly bad news for state spending areas like education and transportation as the likelihood of pay raises for teachers or more road repairs decline as pension debt takes up a larger portion of the state budget.

The long-term cost of inaction is too expensive to ignore. Florida's ability to strike a balance between a low tax environment and quality public services has turned it into an attractive state for both young workers and older retirees. To preserve such a reputation,

policymakers need to recognize and act to correct the state's growing pension problem.

Florida's public servants, their families and the state's taxpayers are depending on the Legislature to get this right. Raheem Williams, Guest

Columnist, Orlando *Sentinel*, [www.orlandosentinel.com](http://www.orlandosentinel.com), April 1, 2021.

## **2. FLORIDA LABOR UNIONS SAY PROPOSAL WILL LEAD TO 'DISASTER' FOR STATE WORKER PENSIONS:**

State, county and city workers and retirees are mounting a full-scale lobbying effort to block a Florida Senate proposal they say will bankrupt the pension fund in the [Florida Retirement System](#) (FRS).

The bill ([SB 84](#)) would prohibit most new hires from joining the traditional state pension plan and instead steer them into a private investment vehicle, like a 401(k) plan, subject to swings in the stock market.

“The people making these decisions fundamentally do not understand how pensions work,” AFL-CIO spokesman Rich Templin said. “And the actions they are taking will prove disastrous.” Templin said over the next few days public sector labor union members will call, text, email, and talk in-person to lawmakers about the dangers lurking in the bill.

The fear is by reducing the flow of income into the pension fund, it will become depleted as more than 644,000 current workers begin retiring. There are more than a million FRS members, including 433,000 retirees currently receiving benefits. The key indicator of a pension plan’s health is what is called the unfunded liability -- the amount of extra money needed to pay benefits if all current working members retired at once. It's like if a five-year car loan suddenly came due in full the second year. Two-thirds of retired and working FRS members are in

what's called the defined benefit plan, or traditional pension, that lawmakers want to close off to new hires except for first responders.

The gold standard, according to firms such as Moody's Investor Services, is 80%. FRS is currently at 82%, or about \$36 billion short of being fully funded.

Two separate audits, [one by a private firm](#) and the other by the [Department of Management Services](#) found that by investment standards the FRS is quite healthy.

Ash Williams manages the fund as head of the State Board of Administration. He told the governor and Florida Cabinet last month the plan's unfunded liability is "very manageable relative to the size of our economy." But Republicans have eyed changes to the state's \$163 billion pension fund since 2010.

Numerous runs at switching to a 401(k)-style,

or defined contributions, plan have died in the Senate.

## **Pension changes now a priority**

This year's proposal has emerged in that chamber, with a House companion yet to be filed.

But it's a priority of Senate President Wilton Simpson, who mentioned the threat of a pension system going bankrupt in his [opening speech](#) of the 2021 legislative session.

The Senate bill is sponsored by Sen. Ray Rodrigues, R-Estero, who warns that other states have been turned into "fiscal basket cases" by their pension systems' unfunded liabilities.

"In 2000, Illinois was rated Triple A and was 75% funded, close to where we are right now," Rodrigues said. FRS was last fully funded in 2008 and has even posted surpluses of up to 118%.

The Legislature reduced the mandated employer contribution to help balance budgets in the wake of the Great Recession.

The reduction in income, and overly optimistic return-on-investment projections created the current unfunded liability – requiring annual payments to protect the state’s credit rating that amounts to about 0.6% of the state budget.

### **Politics or policy?**

One political scientist questions whether the move to close off the pension plan is based in politics more than sound fiscal policy. The reason? “They would rather spend that money (to cover unfunded liability) on other things,” said Charles Zelden, political science professor at Nova Southeastern University in Davie.

Moreover, the bill would create a whole new Florida market of public

sector employees for investment firms to court as clients to manage their pension investments.

“This well-run pension system is in jeopardy because some Wall Street gamblers want to play with our hard-earned retirement fund,” said Maxie Hicks, who retired from the Department of Transportation after 35 years working for the state.

The brewing debate gave one lawmaker pause at a recent committee hearing.

“If this pension were really that unsound, Moody’s (credit rating agency) would have an opinion,” said Sen. Ed Hooper, R-Clearwater. “And that opinion would take away some of those Triple A (ratings). They have not done that.” James Call, Capital Bureau, USA TODAY NETWORK, <https://www.tallahassee.com>, April 2, 2021.

### **3. VACCINES, FISCAL STIMULUS POWER U.S. EMPLOYMENT; ECONOMY BLOOMING:**

The U.S. economy created the most jobs in seven months in March as more Americans got vaccinated and the government doled out additional pandemic relief money, marking the start of what could be the strongest economic performance this year in nearly four decades.

The Labor Department's closely watched employment report on Friday also showed job gains in February were larger than initially estimated. The best first two months of employment growth of any administration in history suggested the labor market has finally turned the corner.

All industries added jobs and many people rejoined the labor force. A measure of the economy's ability to create employment also improved. But the road to full recovery remains long. The jobs deficit is still huge and more

than four million Americans have been unemployed for over six months.

President Joe Biden welcomed the job growth spurt.

“The first two months of our administration has seen more new jobs created than the first two months of any administration in history,” Biden told reporters. “It’s a reflection of two things going on here, a new economic strategy focused on building from the bottom to the middle up, and one that puts government on the side of working people.” Nonfarm payrolls surged by 916,000 jobs last month, the biggest gain since last August. Data for February was revised higher to show 468,000 jobs created instead of the previously reported 379,000. Still, employment remains 8.4 million jobs below its peak in February 2020.

Economists polled by Reuters had forecast payrolls increasing by 647,000 jobs in March. At the current pace, many believe the more

than 22 million jobs lost during the pandemic could be recouped by the end of next year.

The economy added 1.6 million jobs in the first quarter.

The strong gains could play into fears of the economy over heating, even as ample slack remains. The Federal Reserve has signaled it would maintain its ultra easy monetary policy stance for a while to allow complete healing.

“The economy is booming,” said Chris Low, chief economist at FHN Financial in New York. “If vaccines result in low enough COVID numbers to allow significant further service-sector reopening, the Fed will have to start discussing a taper, and update its guidance, before the end of this year.”

Manufacturers hired 53,000 employees. Public and private education payrolls also rose as more schools resumed in-person learning and other school-related activities. Retailers also

added jobs, while mining employment increased by the most since 1981.



As of Friday morning, the United States had administered 157.6 million doses of COVID-19 vaccines in the country and distributed 204.7 million doses, according to the U.S. Centers for Disease Control and Prevention. On Friday, the CDC said fully vaccinated people could safely travel at “low risk,” which could help accelerate the services industry recovery.

The Biden administration's massive \$1.9 trillion pandemic relief package approved in March is sending additional \$1,400 checks to qualified households and fresh funding for businesses.

Economists expect job growth will average about 700,000 per month in the second and third quarters. That, combined with the fiscal stimulus and about \$19 trillion in excess savings accumulated by households during the pandemic, is expected to unleash a powerful wave of pent-up demand.

First-quarter gross domestic product estimates are as high as an annualized rate of 10.0%. Growth this year could top 7%, which would be the fastest since 1984. The economy contracted 3.5% in 2020, the worst performance in 74 years.

The dollar rose versus a basket of currencies. U.S. Treasury prices were mixed. Wall Street is closed for Good Friday.

## Powerful Tailwind

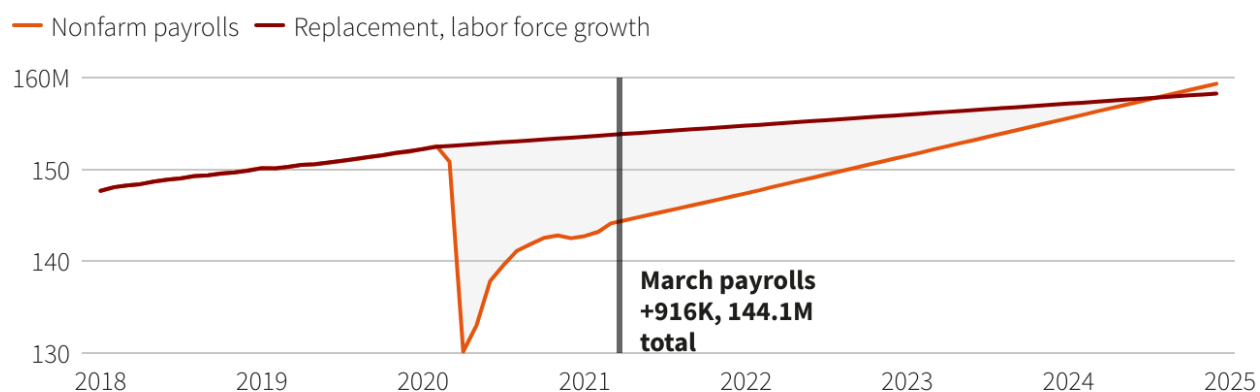
First-quarter growth prospects got a boost from workers putting in longer hours in March as temperatures rose. The average workweek rose to 34.9 hours from 34.6 hours. That, together with robust hiring lifted aggregate hours 1.5%.

Though average hourly earnings slipped 0.1% as the lower-wage leisure and hospitality industry dominated payroll growth, a proxy for take home pay increased 1.4%.

“The powerful tailwind of the reopening of economic activity appears to be gathering force,” said Michael Feroli, chief U.S. economist at JPMorgan in New York.

## The jobs hole facing Biden and the Fed

The administration hopes vaccinations will boost job growth, and the Fed has tied monetary policy to labor market repair. But allowing for roughly 100,000 new jobs needed monthly to account for population growth, it may be mid 2024 before jobs reach their pre-pandemic trend.



Note: Projected growth in nonfarm payrolls uses Moody's Analytics estimate of 326,000 jobs per month for 2021 and 341,000 from there. Replacement and labor force growth assumes 100K additional jobs needed per month.

Bureau of Labor Statistics

The unemployment rate fell to 6.0% last month from 6.2% in February. The unemployment rate has been understated by people misclassifying themselves as being “employed but absent from work.” Without the misclassification, the unemployment rate would have been 6.4% in March.

Even so, a broader measure of unemployment, which includes people who want to work but have given up searching and those working part-time because they cannot

find full-time employment, dropped to a one-year low of 10.7% after holding at 11.1% for two straight months.

About 347,000 people, mostly women, re-entered the labor force in March. The labor force participation rate, or the proportion of working-age Americans who have a job or are looking for one, rose to 61.5% from 61.4% in February.

The employment-to-population ratio, viewed as a measure of an economy's ability to create employment, increased to 57.8% from 57.6% in the prior month. But about 4.218 million people have been out of work for more than 27 weeks, accounting for 43.4% of the 9.7 million people classified as unemployed last month. That was up from 41.5% in February.

“Overall, the aggressive policy support and speed of this cycle should limit labor market scarring,” said Sarah House, a senior economist at Wells Fargo Securities in

Charlotte, North Carolina. Lucia Mutikani, Reuters, <https://www.reuters.com>, April 2, 2021.

#### **4. PUBLIC PENSION PLANS DON'T NEED TO BE FULLY FUNDED:**

U.S. public pension funds are generally sustainable in the long term even without becoming fully funded, a study from Washington-based think tank Brookings Institution shows.

The study, presented at the Brookings Papers on Economic Activity Conference on March 25, says that state and local government pension plans do not need to be fully funded in order for the plans to be able to pay benefits in the future.

Louise Sheiner, senior fellow in economic studies and policy director for the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution and co-author of the study, said in a phone interview that the

study's origins came from an academic debate on the sustainability of public pension plans.

"The academic debate," she said, "was really, really focused on the appropriate discount rate for the liabilities."

Public pension plans use their expected rate of return as the discount rate for their liabilities, she said, and some academics believe that because of the higher risk resulting from the guarantee of benefits that public plans provide, a much lower risk-less rate should be used, meaning the plans are "really, really underfunded."

As a result, those academics believe there is a public pension crisis, because lower discount rates would raise liabilities and force governments to make unsustainably enormous contributions.

In response, the study takes a public finance perspective, that governments issue debt and

unfunded pension liabilities are simply a form of implicit debt.

Even if assets are exhausted, plans can be sustainable as long as the government makes the service payments at an interest rate equal to the asset return assumptions on the debt they issue to pay benefits, the study says.

As an exercise, the study calculates how long it would take plans to exhaust assets at discount rates of 5%, 2.5% and zero. Of the 40 plans studied, eight plans would exhaust assets in 99 or fewer years at a 5% discount rate, 21 plans would exhaust assets in 88 or fewer years at a 2.5% discount rate, and 31 plans would exhaust their assets in 69 or fewer years at zero.

The study shows that over the past 30 years using discount rates based on the expected rate of return, the 40 public pension plans studied had an average funding ratio of 83%. First, she said, if plans used a AAA corporate-

bond interest rate to calculate their discount rates, it means "they always would have been underfunded," she said. If they used that discount rate, the average funding ratio would have been 55%.

"If you really believe the real rate of return is zero," Ms. Sheiner said, "then you're in this world where having assets is not particularly valuable."

The study also says another way to assess sustainability is to "ensure that the implicit debt to (gross domestic product) ratio is no higher in 30 years than it is today." The study provides a table of one-time permanent percentage point increases in contribution rates to public plans to keep that ratio stable, based on real rates of returns of zero, 2.5% and 5%.

For example, plans would need to increase contributions by 7.2 percentage points today at a 2.5% rate of return on assets.

Ms. Sheiner added that many state and local plans have enacted pension reforms over the past 10 years, primarily in creating new tiers of benefits for new hires and altering cost-of-living adjustments. As current employees "age out" of this peak of benefits, the sustainability of these plans will improve even more. The study is available on the Brookings Institution's [website](#). Bob Kozlowski, *Pension & Investments*, [www.pionline.com](http://www.pionline.com), April 5, 2021.

## **5. ERROR DISTORTS PUBLIC EMPLOYEE PENSION DEBATE:**

In 2015, the Malloy administration commissioned [a study of Connecticut's State Employees Retirement System \(SERS\) by the Center for Retirement Research](#), a prominent pension research institute. While the Center's report was well done and most of its recommendations were adopted by the state, the Center miscalculated the level of employee pension benefits, saying they were not "overly

generous.” They were and, today, still are overgenerous.

The Center’s error has distorted subsequent debate about state employee compensation, the origins of the drastic underfunding of SERS, and the high cost to the state of pension benefits, as the state’s annual contribution to SERS escalates inexorably.

The Center stated that “The main cost driver for SERS is the unfunded liability from legacy costs and funding shortfalls, not overly generous benefits to members [employees and retirees].”

The statement is correct, except that many state employee union supporters and apologists have misinterpreted it to say “The **only** cost driver for SERS is the unfunded liability from legacy costs and funding shortfalls...” That is not correct.

Misinterpretation is understandable in light of another statement by the Center “the cost of

benefits provided to current employees (the total normal cost) is actually below [the national] average for similar plans.”

This second statement was erroneous. It relied upon analysis which glossed over the key question of who bears “the cost.” The cost of benefits is borne both by the state and by employees who contribute to their own pensions.

Because Connecticut employees contributed so little to their own pensions, the cost to the State of Connecticut was actually *higher* than the average cost of pension benefits in the 50 states,

Here are the numbers from the Center’s study (page 17). In 2014, the State of Connecticut contributed 8.0% to SERS, while the 50-state average state contribution was 7.0%. These percentages are pension cost as a percent of payroll cost.

Connecticut state employees contributed only 2.2% to their own pensions, while the 50-state average employee contribution was triple that amount, or 6.6%.

Either way you interpret “generous” – from the state perspective or from the employee viewpoint – Connecticut employee pension benefits *were* overly generous.

Connecticut was “generously” paying 1.0% more than other states. Connecticut employees were receiving 1.0% more, since they were contributing just one-third of what state employees were in other states.

Instead of recognizing this distinction, the Center glossed over it and only looked at the gross unallocated cost of pension benefits, namely 10.2% in Connecticut versus an average of 13.6% in the 50 states. This creates an illusion opposite to reality.

The fair and accurate measure is net cost for the state and net benefit for employees, which,

in Connecticut, was 8% (the gross unallocated cost/benefit of 10.2% less employee contributions of 2.2%). The national average was 7.0% (13.6% less 6.6%).

The Center stated at the outset of its study that SERS was only 42 percent funded in 2014, “among the lowest in the nation.” A state with a severely underfunded pension fund should not be bearing a higher-than-average cost to provide its employees more generous pension benefits than states with better-funded pensions.

Yet Connecticut has been doing exactly that, with the consequence that SERS remains amongst the lowest funded pension funds in the nation, and with the further consequence that the pension cost for the state increases every year, both absolutely and as a percent of the state’s overall budget.

And pension benefits are not the only element of “generosity” in Connecticut. State

employees enjoy better wages and more robust health care benefits than state employees in the other states. It should be noted that Connecticut's higher wages skewed the results of the Center's pension benefits analysis. With pension benefits measured as a percent of wages ("payroll"), Connecticut's higher wages made its pension benefits appear to be lower, or less generous.

However, the larger issue is total compensation. There have been five studies of total state employee compensation in Connecticut. The first was a [Connecticut state commission's study in 2010](#). Yankee Institute commissioned studies of Connecticut in [2015](#) and again in [2020](#). Finally, the American Enterprise Institute carried out two studies comparing all 50 states, the first in [2014](#) and the second in [2019](#) (covering both state and municipal employees).

All five studies compared state employee compensation to private sector compensation.

In all five, Connecticut state employees earned from about 30% to over 40% more than the state's private sector employees, the highest gap in the nation. That is both unfair and unsustainable. Red Jahncke, CT Examiner, <https://ctexaminer.com>, April 1, 2021.

## **6. COBRA SUBSIDIES UNDER THE AMERICAN RESCUE PLAN ACT:**

The American Rescue Plan Act (ARPA), signed into law on March 11, 2021, requires employers to provide free COBRA coverage to employees (and family members) who qualify for COBRA due to an involuntary termination of employment or reduction in hours. Employers are required to offer free COBRA coverage between April 1 and September 30, 2021 (the "Subsidy Period"). This Advisory discusses employer obligations related to the subsidy – including new COBRA election periods and new COBRA notices – and how employers will be

reimbursed for this 100% subsidized COBRA coverage through a payroll tax credit.

## **What Types of Health Plans Must Offer Free COBRA Coverage?**

The subsidy will cover premiums for all group health plans subject to COBRA continuation coverage requirements (medical, dental, and vision plans). The subsidy will also cover plans not subject to federal COBRA requirements but subject to state law continuation coverage rules that provide for continuation coverage comparable to COBRA. The subsidy does not apply to health care flexible spending arrangements.

## **Who is Eligible for Subsidized COBRA?**

Notably, not all COBRA qualified beneficiaries are eligible for subsidized COBRA. To be a so-called Assistance Eligible Individual (AEI), the qualified beneficiary must be eligible for COBRA due to the employee's involuntary termination from employment or reduction in

hours (in both cases, other than for gross misconduct). Additionally, the qualified beneficiary must fall into one of the following categories:

- The qualified beneficiary becomes eligible for COBRA before or during the Subsidy Period and makes an election for COBRA coverage to be in place during the Subsidy Period.
- The qualified beneficiary became eligible for COBRA prior to the Subsidy Period and either did not elect COBRA or elected COBRA but discontinued it prior to the Subsidy Period. The special COBRA re-election opportunity for this group is explained in the next section.

### **Who is Eligible for a Second COBRA Election Period?**

The group described in (2) above must be granted a second opportunity to elect COBRA coverage and take advantage of the free COBRA coverage during the Subsidy

Period. This special election period will begin on April 1, 2021 and end 60 days after notice of the election opportunity is provided to the AEI by the plan administrator. The DOL is required to issue a special model COBRA election notice by Monday, April 12, 2021 that plan administrators can use to inform this group about the special COBRA election opportunity.

Importantly, AEIs who elect COBRA during this special election period will begin COBRA coverage on April 1, 2021, but if the COBRA event occurred before this date, the coverage will still end 18 months from the date they originally became eligible for COBRA. Because COBRA coverage under the special election period begins on April 1, 2021, AEIs do not have to pay retroactive premiums back to the date they originally lost coverage and became eligible for COBRA. Note that this may lead to adverse selection under a health plan and employers

with self-insured arrangements should plan accordingly.

While further clarification from the DOL on some aspects of the ARPA is expected, these new rules do not supersede the recent guidance mandating extension of the COBRA coverage election period, as described in our client advisory of [March 3, 2021](#). As such, COBRA beneficiaries still have the option to wait until the end of the deadline extension period to make their COBRA elections. However, to take advantage of the subsidy, they must make their COBRA elections within the special election period.

### **How Long Does the Subsidy Last?**

The subsidy will end on the earliest of (i) September 30, 2021, (ii) expiration of the AEI's ordinary COBRA coverage (typically 18 months from the date of involuntary termination or reduction in hours), or (iii) the date the AEI becomes eligible for coverage

under another group health plan or Medicare. In the event that the AEI becomes eligible for coverage under another group health plan or Medicare, the AEI is responsible for notifying the plan administrator of such coverage eligibility. The failure to do so will result in a minimum fine of \$250 (which can be increased if the failure is intentional).

### **Can an AEI Make an Alternative Coverage Election Within the Health Plan?**

Under the ARPA, employers may also permit AEIs to change their coverage election to an option different from the one in effect when they first became eligible for COBRA. For an AEI to choose a different coverage option, the following requirements must be met: (1) the premium for the other coverage option must be equal to or less than the premium for the prior coverage; (2) the alternative coverage is also offered to similarly situated employees; and (3) the alternative coverage includes more than “excepted benefits” like dental and vision

benefits.

## **How Does an Employer Get Reimbursed for the Premium Subsidy?**

For the duration of the Subsidy Period, AEs are deemed to have paid their COBRA coverage in full, provided they timely elect it. The full amount of the premium will be subsidized by the federal government via an employer tax credit. The sponsor of a plan may claim a tax credit against its liability for Medicare payroll taxes.

## **What Are the Notice Requirements?**

The Act provides that employers must provide notice to (i) all employees who experienced an involuntary termination of employment or reduction in hours prior to April 1, 2021 (the beginning of the Subsidy Period) and is still within the 18-month COBRA period (whether they had elected, declined, or elected but discontinued coverage), and (ii) all employees who will experience such an event after April

1, 2021 (during the Subsidy Period). The notice must describe the subsidy and ability to enroll in a different coverage option (if so permitted by the employer). For AEs who became eligible for COBRA prior to April 1, 2021, this notice must be provided by May 31, 2021. For AEs who become eligible for COBRA after April 1, 2021, it is unclear from the statute exactly when notice must be provided, but it would be good practice to provide it at the time that usual COBRA election notices are provided. The DOL is required to issue a model notice for these purposes no later than Monday, April 12, 2021.

The Act also provides that another notice must be provided to inform AEs when their subsidy will expire, and this must be done no more than 45 days and no fewer than 15 days before the expiration date. The notice must inform them that they may be eligible for unsubsidized coverage through COBRA. This requirement does not apply if the subsidy

period is expiring due to the AEI's eligibility for other group health coverage or Medicare. The DOL is required to issue a model notice for this communication by April 26, 2021.

We expect further guidance on providing COBRA notices to qualifying family members in addition to the employee.

## **What Should Employers and Plan Administrators Be Doing Now?**

Step 1: Decide whether to wait for the forthcoming new model DOL COBRA notice or revise or prepare a supplemental COBRA notice to be given now. We recommend waiting for the model notice to avoid miscommunication. If an employer wants to move forward with its own notice, however, the notice must include:

- The forms necessary for establishing eligibility for premium assistance;

- Contact information for the plan administrator and any other person maintaining relevant information in connection with the premium subsidy;
- A description of the second COBRA election period for those who are eligible;
- A description of the AEI's obligation to notify the plan of eligibility for other group health plan or Medicare coverage that would disqualify the AEI from receiving the subsidy, and the penalty for failure to carry out this obligation;
- A description, displayed in a prominent manner, of the AEI's right to subsidized COBRA coverage and any conditions on entitlement to the subsidy; and
- A description of the AEI's option to enroll in different coverage if the employer so permits.

Step 2: Identify who has had an involuntary termination of employment or reduction in

hours and is still within the 18-month COBRA period.

- Provide these individuals with the notice and election form to elect COBRA.

Step 3: Determine whether AEs will be allowed to elect other coverage options (at the same or lower costs).

Step 4: Modify payroll administration to reflect the COBRA subsidy. This will include:

- Identifying AEs
- Calculating the amount of the subsidy
- Tracking the duration of the subsidy

Step 5: Keep track of premiums for the subsidized COBRA in order to accurately claim tax credits.

Step 6: Prepare to provide the expiration notice for AEs other than those whose coverage is expiring due to other group health coverage or Medicare.

Pamela Kaplan, Victoria Anderson and Jane Wong, Kelley Drye, [www.kelleydrye.com](http://www.kelleydrye.com), April 2, 2021.

## **7. WHEN TAX DEDUCTIONS COST YOU MONEY:**

How much is a tax deduction worth? Maybe less than your money scripts would have you believe. Here are some common ways that over-emphasizing deductions may reduce your tax bill, but actually cost you more money than you save.

- Maintaining a Home Mortgage.

“I could pay off my mortgage, but I’d lose the interest deduction.” Consider this: on average, a home interest deduction is worth \$0.12 for every dollar paid in interest. This means the net out-of-pocket cost is \$0.88. If you don’t have a mortgage, for every dollar you no longer spend on interest you will now pay \$0.12 more in taxes--but you will also have

\$0.88 more to keep. Reducing your net worth by a dollar to save \$0.12 is not a sound money decision.

- Rejecting Income to Avoid Higher Tax Brackets.

A couple with a taxable income of \$81,050 is in the 12% tax bracket. A \$1.00 raise would put them into the 22% tax bracket. Should they take the raise? Absolutely. Those who would turn down the raise probably assume their taxes would increase from \$9,726 (12% of \$81,050) to \$17,831 (22% of \$81,051).

Fortunately, this is not the way tax brackets work. The higher bracket applies only to the earnings over \$81,050. The dollar raise would be taxed at \$0.22, for a total tax bill of \$9,726.22.

- Not Carefully Comparing Traditional and Roth IRAs.

Contributing retirement funds to a traditional IRA provides an immediate deduction, but

choosing a non-deductible Roth IRA and paying some taxes could make more sense. For example, a young married couple with a taxable income of \$19,900 is in the 10% tax bracket. With a good chance their income at retirement will be considerably higher, saving 10% in taxes today could mean paying 12%, 15%, or even 37% when those funds are withdrawn. With a Roth IRA, this couple would pay 10% taxes on their contribution today in exchange for paying zero taxes on their future withdrawals.

- Avoiding Roth Conversions.

Similarly, it often makes financial sense to convert a portion or all of traditional IRAs to Roth IRAs. If you are in a lower tax bracket today than you expect to be in when you retire, it usually makes sense to pay lower taxes on the amount converted now instead of paying higher taxes later.

- Holding Municipal Bonds.

Bonds issued by municipalities are tax-free. Why pay taxes on interest from corporations and US Treasury bonds when you could pay no taxes on interest from bonds used to finance local municipal ventures? Here's why. The current average interest rate on high quality 10-year municipal bonds is 1.10%. The average interest rate on high quality 10-year corporate bonds is 2.1%. Even if you are in the highest federal tax bracket, owning the taxable corporate bond would net you 1.32%, which is still higher than the municipal bond. It's important to do the math before investing in tax-free municipal bonds.

Spending a dollar just to save any portion of it in taxes only reduces your net worth. Such behavior is not in your best financial interest, even though it is completely rational based on the money scripts and emotions behind it. Those beliefs might include distrust of government, a desire to punish or control government by reducing its revenue,

inaccurate assumptions as to how tax brackets work, and a script that paying less in taxes is always the best choice.

Tax deductions only make sense if you actually need or want to spend money for deductible items like property taxes, interest, charitable giving, or necessary business expenses. Reducing taxes by overvaluing deductions only reduces your own financial well-being. Rick Kahler, President of Kahler Financial Group, Black Hills Pioneer, [www.bhpioneer.com](http://www.bhpioneer.com), April 3, 2021.

## **8. MOST PEOPLE HAVE NO CLUE WHAT THEY PAY FOR THEIR 401(K):**

Do you know -- really know -- what you pay for your retirement plan? If you do, consider yourself in the minority.

A recent poll found that more than half of Americans (57%) believe they pay “no fees” or “very low fees” for their 401(k) plan at work. Nearly an additional quarter of

respondents said they “don’t know” what they pay. It adds up to a stunning three out of four retirement savers in the dark about [what their retirement plan costs them](#), year in and year out.

The reality, of course, is that everyone pays fees for retirement investing, and those fees are pretty stiff for many savers. The average employee working for a small business pays 2.22% per year in plan costs, according to the latest edition of the *401k Averages Book*.

How will the new stimulus package affect the economy? Understand how today’s market dynamics, tax policies and more impact you with real-time news and analysis from MarketWatch. Our instant market data and insights will help you take action immediately--no matter your investing experience. As we have heard from our small business owner clients for some time now -- and these survey results show -- there is a worrisome trend in

the financial services industry of investment professionals charging outsized fees.

Unfortunately, many hard-working Americans are not seeing the expected returns on their investments due to high fees associated with their 401(k) retirement savings.

That's because fees are taken out of retirement plan balances every three months. The percentage you are charged is based on your total balance, not the investment return.

As a result, even a number like 2% is a far greater portion of your investment return in any given year. It also means that if the stock market [SPX, +1.44%](#) is flat for the year your 401(k) balance declines.

That makes fee reduction an important goal for any retirement saver or small business owner looking to keep more of their money working for them, rather than for the plan providers, fund managers or investment managers.

The very largest U.S. firms, which enjoy economies of scale when it comes to employee services, typically pay 401(k) fees of under 1%. Getting the same deal from a small business 401(k) plan has been historically difficult -- until now.

Thankfully, fundamental changes to the small business 401(k) market have brought in better, more modern approaches to retirement planning. It behooves any business owner to review their plan and to ask their provider if current fees are in line with the market.

More survey findings:

- **Impact of COVID-19:** Respondents indicated that COVID-19 has had an effect on retirement savings, as 66% of those surveyed have changed their approach to retirement investing as a result of the pandemic, with 62% saving more for retirement as a result.

- **Lack of knowledge:** Limited understanding of how their money is invested within their retirement account is another common theme, with 51% of those surveyed unsure of the breakdown of their investments between stocks and bonds.
- **Investment anxiety:** Americans are feeling anxious about their ability to afford a comfortable retirement. If they were able to go back in time, 84% would want to learn more about investing earlier in life, while 89% would want [to invest more in retirement accounts earlier in life.](#)

(The results are from a survey Rebalance commissioned a national survey about retirement costs in early February. It included 1,016 U.S. adults between 45 and 75 years of age.) Scott Puritz, Market watch, [www.marketwatch.com](http://www.marketwatch.com), April 1, 2021.

## **9. HERE'S WHY YOU SHOULD HANG UP IMMEDIATELY WHEN SOCIAL SECURITY**

## **GIVES YOU A CALL:**

Problems with your Social Security number; it's a real possibility because of the large amount of identity theft. The calls keep coming for some seniors.

“I get these calls at least once a day, maybe sometimes twice, saying that there’s a problem with my Social Security number and it’s going to be suspended,” said David Vance, of San Antonio. “They say, 'Well, talk to one of the officers,' you know, 'Push one.' I’ll hang up on them or sometimes I’ll push one and ask him what’s going on. They ask me for my name, maybe even the last four of my social, and when I refuse they hang up on me.”

Blocking those numbers doesn't always stop the calls. “If I get them on my cell phone, I’ll block the number, but they always find another way,” Vance said.

“The Social Security Administration, first off, they will never revoke or suspend your Social

Security number,” said [Michael Skiba, known as Dr. Fraud](#). Even if your caller ID says it's the Social Security Administration calling, do not be fooled. “They are trying to get your Social Security number, trying to get any little nuggets of personal information. Your name, date of birth,” said Skiba. “Sometimes they’re going to take you off guard. You’re not even really going to realize that you might have released it in the middle of a sentence when you’re talking to them because they can be that persuasive.”

Callers might even use threatening tactics to get you to talk. “One of the cues right off the bat is the tone,” Skiba said. “You know, they seem to be more aggressive on the phone because they’re really trying to elicit as much information as they can from you. So they’re really going to push for that.”

The Social Security Administration will not contact you with an unsolicited call. If there is

really a problem with your number, here is what will happen:

“The federal government, if they’re after you, you know, they’re not going to call you with a recorded message threatening you,” said Alex Hamerstone, a cybersecurity expert with [TrustedSec](#). “That’s really not how it works. You’ll get a knock on your door, or you’ll find out through your attorney.”

Still, be safe. Never give out your Social Security number, especially if someone asks for only the last four digits.

“The first few digits of your Social Security number, actually a lot of scammers can kind of figure out,” Skiba said. “There’s a certain algorithm and that’s based on the date it was issued and where it was issued. Those last four, that is really the true fingerprint that’s unique to every single person. So, Social Security numbers in general I would protect, but especially those last four. Because that is

truly, truly a unique number.” Hang up if you get a call from the Social Security. Instead, contact the Social Security Administration yourself if you have questions about your number. Niccole Caan, [www.kens5.com](http://www.kens5.com), April 2, 2021.

## **10. MANAGING YOUR BILLS DURING THE PANDEMIC:**

COVID-19 has thrown the economy into a tailspin. As people have been laid off, furloughed, or are working fewer hours, bills can pile up. This week, for Financial Literacy Month, we’re looking at ways to manage -- and today, it’s all about [dealing with debt](#). Here are some ideas to start regaining your financial footing when you have more month than money.



## Managing Debt



### Trouble paying bills?

Ask for lower payments  
or later due dates.

*(And get it in writing.)*



FEDERAL TRADE  
COMMISSION

Learn more at: [ftc.gov/debt](https://ftc.gov/debt) #FinancialLiteracyMonth

- **Gather your bills:** Consider creating a budget so you get a picture of where your money comes from -- and goes.
- **Ask for help:** If you're behind on payments, contact the companies and try to work out a new payment plan. Ask for lower payments or delayed due dates, and get changes in writing. Also, check for pandemic assistance programs.
  - Find out if your state or local government has programs that let you hold off on paying some bills right now.

- If you have a government-backed mortgage, you may be able to delay payment. Contact your servicer and [read more](#).
- Look for help with your [rent and utilities](#) and [housing assistance](#). Facing eviction? You may be able to stay in your housing if you [act now](#).
- If you have [eligible federal student loans](#), make sure you're taking advantage of the [temporary payment relief](#) available. If you made any payments after March 13, 2020, you may be able to [get a refund](#).
- **Watch out for scams:** In stressful times, scammers follow the headlines. Any company that guarantees they can get your creditors to forgive your debts, or that makes you pay up front for help, is probably scamming you. [If you're looking for debt relief](#), look for [help you can trust](#).

If you come across debt relief scams like these, we want to hear about it. Tell the FTC at [ReportFraud.ftc.gov](https://www.reportfraud.ftc.gov). Ari Lazarus, Consumer Education Specialist, FTC, [www.ftc.gov](https://www.ftc.gov), April 6, 2021.

## **11. IRS LETTERS EXPLAIN WHY SOME 2020 RECOVERY REBATE CREDITS ARE DIFFERENT THAN EXPECTED:**

As people across the country file their 2020 tax returns, some are claiming the 2020 [Recovery Rebate Credit](#) (RRC). The IRS is mailing letters to some taxpayers who claimed the 2020 credit and may be getting a different amount than they expected.

It's important to remember that the first and second Economic Impact Payments (EIP) were advance payments of the 2020 credit. Most eligible people already received the first and second payments and shouldn't or don't need to include this information on their 2020 tax return.

People who didn't receive a first or second EIP or received less than the full amounts may be eligible for the 2020 RRC. They must file a 2020 tax return to claim the credit, even if they don't usually file a tax return.

When the IRS processes a 2020 tax return claiming the credit, the IRS determines the eligibility and amount of the taxpayer's credit based on the 2020 tax return information and the amounts of any EIP previously issued. If a taxpayer is eligible, it will be reduced by the amount of any EIPs already issued to them.

If there's a mistake with the credit amount on Line 30 of the 1040 or 1040-SR, the IRS will calculate the correct amount, make the correction and continue processing the return. If a correction is needed, there may be a slight delay in processing the return and the IRS will send the taxpayer a letter or notice explaining any change.

Taxpayers who receive a notice saying the IRS changed the amount of their 2020 credit should read the notice. Then they should review their 2020 tax return, the requirements and the worksheet in the [Form 1040 and Form 1040-SR instructions](#).

Here are some common reasons the IRS corrected the credit:

- The individual was claimed as a dependent on another person's 2020 tax return.
- The individual did not provide a Social Security number valid for employment.
- The qualifying child was age 17 or older on Jan. 1, 2020.
- Math errors relating to calculating adjusted gross income and any EIPs already received.

IRS.gov has a special section - [Correcting Recovery Rebate Credit issues after the 2020 tax return is filed](#) – that provides additional information to explain what errors may have

occurred. Taxpayers who disagree with the IRS calculation should review their letter as well as the questions and answers for what information they should have available when contacting the IRS.

The Internal Revenue Service urges people who have not yet filed their 2020 tax return to properly determine their eligibility for the 2020 before they file their 2020 tax returns. To calculate any credit due, start with the amount of any EIPs received. Use the RRC Worksheet or tax preparation software. Taxpayers who didn't save or didn't receive an IRS letter or notice can securely access their individual tax information with an [IRS online account](#).

Anyone with income of \$72,000 or less can file their Federal tax return electronically for free through the IRS [Free File](#) Program. The fastest way to get a tax refund which will include your 2020 RRC is to [file electronically](#) and have it [direct deposited](#) into

their financial account. Bank accounts, many prepaid debit cards and several mobile apps can be used for direct deposit when a routing and account number are provided. If using a prepaid debit card, check with the financial institution to ensure the card can be used and to obtain the routing number and account number, which may be different from the card number.

For more information, visit [IRS.gov.RRC](https://www.irs.gov/rrc) and the [frequently asked questions](#) by topic.

- [Topic A: Claiming the Recovery Rebate Credit if you aren't required to file a tax return](#)
- [Topic B: Eligibility](#)
- [Topic C: Claiming the Credit](#)
- [Topic D: Calculating the Credit](#)
- [Topic E: Receiving the Credit](#)
- [Topic F: Finding the Economic Impact Payment Amount to Calculate the Recovery Rebate Credit](#)

- [Topic G: Correcting issues after the 2020 tax return is filed](#)

IRS Newswire IR-2021-76, [www.irs.gov](http://www.irs.gov), April 5, 2021.

## **12. FOR THOSE WHO LOVE WORDS:**

Alright vs. All Right -- is 'alright' all right? Find out [here](#).

## **13. QUOTE OF THE WEEK:**

“The first principle is that you must not fool yourself, and you are the easiest person to fool.” - Richard P. Feynman

## **14. TODAY IN HISTORY:**

On this day in 1766, the first fire escape was patented consisting of a wicker basket on a pulley and chain.

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