### In the Media

**Commission examining possibility of consolidating Illinois' hundreds of local pension plans**

There are more than 650 individual police and firefighter pension funds in Illinois, each governed by a separate five-member board. In all, this equals more than 3,300 pension fund trustees, and each board is responsible for paying for its own accountants, financial consultants, actuaries, investment managers, attorneys and mandated training for trustees. To complicate matters, smaller pension funds are unable to generate the same sort of returns as larger funds because they lack access to the same diverse portfolios.

*State Journal-Register*

**Kentucky House rejects Senate-passed bill allowing universities and other employers to leave retirement system**

Whatever lawmakers decide is likely to have a deep impact on the agencies, their employees and the state’s $37 billion unfunded pension liability. ... The plan would be costly. An actuarial analysis provided for the bill estimated the plan could add $1 billion to the state's unfunded pension liability, which is already one of the worst in the country. But simply capping the pension contributions of the agencies involved at 49 percent of payroll, as lawmakers did last year, at a time when state government is paying 84 percent of payroll, would also be expensive.

*Lexington Herald-Leader*

**Kentucky governor says legislators need intestinal fortitude to pass pension reform**

Reverting to the rhetoric he used at the end of last year after legislative leaders quickly adjourned the special session he called to pass pension reform, Bevin said in a radio interview, "We just need men and women to step up, have the intestinal fortitude, and make hard decisions." Bevin ripped lawmakers for failing to address the pension crisis at the special

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### Studies & Reports

**NASRA updates pension costs issue brief**

The brief measures FY 16 spending on public pensions as a percentage of all state and local government spending in aggregate and for each state. The brief also projects a slight decline in the rate of spending for FY 17 which, if it materializes, will mark the first decline in the rate of spending on pensions since FY 09.

[Issue Briefs, Papers & Analysis@NASRA.org](#)

**Fidelity publishes results of Global Institutional Survey**

In preparation for a potentially more volatile market environment, institutional investors are looking at ways to diversify sources of investment outperformance. While institutions of all sizes plan to make changes to their investment approaches, Fidelity's Global Institutional Investor Survey finds that institutions with more than $1 billion in AUM expect to make the most significant changes to their asset allocation.

[National Association of Plan Advisors](#)

**Tweet of the Week**

As of February 2019 the BLS identifies approximately 19.7 million individuals employed by state and local governments, a figure equal to approximately 13 percent of the nation's workforce.

[IFEBP: Ten ways behavioral finance can improve retirement savings](#)

The insights of behavioral finance have the potential to help employers, plan sponsors and plan administrators make changes that can yield a substantial difference in the actions of employees and plan participants. Here are ten tips based on the principles of behavioral finance for helping workers achieve a secure retirement.

[Read the tips](#)

**Survey finds ESG investing cognitive dissonance among DC plan participants**

The insights of behavioral finance have the potential to help employers, plan sponsors and plan administrators make changes that can yield a substantial difference in the actions of employees and plan participants. Here are ten tips based on the principles of behavioral finance for helping workers achieve a secure retirement.

[Read the tips](#)
session he called last December, and then taking a high-profile step of creating a working group that despite many meetings produced no bill for this session.

Louisville Courier-Journal

CNBC: Wages are rising, especially for lower-income workers

Average hourly earnings rose 3.4 percent in February from the same period a year ago, according to a Bureau of Labor Statistics report last week. That's the biggest gain since April 2009 and seventh month in a row that compensation has been 3 percent or better. What has set this rise apart is that it's the first time during an economic recovery that began in mid-2009 that the bottom half of earners are benefitting more than the top half - in fact, about twice as much.

PlanSponsor ESG@NASRA.org

Federal Focus

SCOTUS will not take up San Diego Proposition B pension case

The U.S. Supreme Court announced it will not intervene in San Diego's pension case, leaving in place a California Supreme Court ruling that the city skipped a key legal step when it placed a proposition on the ballot in 2012 to discontinue traditional pensions for new hires. Proposition B was approved by 65 percent of city voters, making San Diego the only California city to close its defined benefit pension, although it did not apply to public safety.

San Diego Union-Tribune

Job Postings

For details on open positions, visit Careers @ NASRA.org

National Association of State Retirement Administrators

NASRA News Clips

In the Media

Kentucky Retirement Systems board hears arguments to give local employers more control

The "Free CERS" movement is a coalition of local governments, local emergency service providers, school boards and other agencies whose public employee pensions are managed by the County Employee Retirement Systems, or CERS. They want CERS to have its own board of directors and

Studies & Reports

American Legislative Exchange Council updates annual criticism of public pension funding conditions

Unfunded liabilities of state-administered pension plans, using a proper, risk-free discount rate, now total over $5.96 trillion. The average state pension plan is funded at a mere 35 percent. ... This report clearly illuminates the pervasive pension underfunding across
administration, separate from the Kentucky Employee Retirement System, or KERS. "Our members are 63 percent of the membership, we are 73 percent of the assets," said Bryanna Carroll, director of governmental affairs for the Kentucky League of Cities. "They want a voice."

WLKY

State court directs San Diego to compensate employees denied access to a defined benefit plan

The appeals court ruled the financial compensation for the 4,000 workers must be the difference between the value of a pension and the value of the 401(k)-style plans, plus 7 percent annual interest. ... The compensation ordered by the court is called a "make whole" remedy, because it seeks to give the employees what they would have had if the initiative never took effect.

San Diego Union-Tribune

Milwaukee County retirement board approves plan to collect benefit overpayments from retired members

Under the plan, each of the 185 retirees would receive a notice summarizing the error, the correct monthly pension payment and total dollar amount of principal and interest owed to the county. The notices also would describe repayment options. Retirees refusing to accept the county’s offer would be told they are responsible for repaying both principal and interest due. The proposal also creates a six-year claim period for any future overpayments made in error to retirees. If the Retirement Plan Services office does not find the mistake within six years, then the county becomes responsible for repaying the pension fund for the full amount of the overpayment.

Milwaukee Journal-Sentinel

NASRA survey results on overpayment of benefits

NASRA adopts resolutions outlining the organization's position on a variety of issues. Resolution 2016-01 sets forth the 'Guiding Principles For Public Retirement System Plan Design and Sustainability' which incorporates core features balancing retirement security, workforce management and economic efficiencies.

Federal Focus

Urban Institute: Reforming WEP exposes weaknesses in state and local pensions

This report, funded by the Laura & John Arnold Foundation, explores how various workers would be affected under proposed federal legislation to modify the Windfall Elimination Provision. It suggests that policymakers could further study the impacts of the new WEP formula, and also consider shoring up the regulations governing noncovered pension plans to protect short-tenure workers, as "many pension plans for noncovered state and local government employees do not provide retirement benefits for short-tenured workers that are equivalent to Social Security." The report suggests consideration could also be given to "developing a pathway to achieve universal Social Security coverage to improve retirement security for all workers."

Read the report
Social Security Coverage@NASRA.org

More permissive federal rules governing lump sum pension benefit payouts may put retirees at financial risk

With no fanfare in early March, the Treasury Department issued a notice that allows employers to buy out current retirees from their pensions with a one-time lump sum payment. The decision reverses Obama-era guidance, issued in 2015, that had effectively banned the practice after officials determined that lump-sum payments often shortchanged seniors. ... Advocates for the elderly worry that millions of people receiving monthly pension checks could be at risk. CNN
Read the GAO report
Snapshot of this Week's FYI

1. Proposed revisions to the Federal Windfall Elimination Provision (WEP) could potentially do as much harm as good, according to a new study by the Urban Institute.

2. Proposed revisions to the Federal Windfall Elimination Provision (WEP) could serve to exacerbate perceived failures of state and local governments to provide employees not covered by Social Security with an equivalent benefit, a new study, funded by the Laura and John Arnold Foundation, charges.

3. Public sector defined benefit (DB) pension costs are soaking up limited government resources that could be used, instead, to fund core government services such as education and public safety, according to a new report from the American Legislative Exchange Council (ALEC).

New Study of WEP Reform Raises Concerns

Part One: WEP Reform

Proposed revisions to the Federal Windfall Elimination Provision (WEP) could potentially do as much harm as good, according to a new study by the Urban Institute. Replacing the current WEP approach with a more proportional formula would be an improvement over the current system, the study asserts, but this would fail to address what the study calls the “fundamental problem”—the failure to cover all workers in Social Security.

Social Security coverage applies to approximately 94 percent of all U.S. workers, including most state and local government employees. However, about a quarter of all public workers, mostly teachers, have government jobs that are not covered by Social Security. These employees, mostly teachers, number approximately five million, and account primarily for the remaining six percent of uncovered workers nationally.

However, while some government employees will work their entire career in jobs not covered by Social Security, many will work in a mix of covered and noncovered employment. Consequently, many of them will pose a problem for Social Security because of how its benefit formula is designed.

Specifically, the Social Security formula replaces a higher share of a person’s lowest earnings than of his or her higher earnings, making Social Security benefits progressive in nature. That is, lower-earning workers and those with fewer years of
employment receive a higher replacement rate than higher-earning workers, which is intended to protect lower-income beneficiaries from falling into poverty.

However, for noncovered workers, this Social Security benefit formula inadvertently acts to increase their replacement rate as if they were a low-income earner, when, in fact, they had additional earnings and were accruing additional retirement benefits through their government employer’s pension plan.

Therefore, the WEP was created to provide more equitable treatment by ensuring that workers with the same earnings histories but different patterns of covered earnings are treated the same. Specifically, it reduces the Social Security benefits of workers who receive a pension from noncovered employment so that they do not receive more overall Social Security benefits relative to their covered earnings than workers who only worked in covered employment.

The current WEP applies only to those who receive a noncovered pension. Also, benefits cannot be reduced by more than one-half of the noncovered pension benefit. Finally, the size of the WEP reduction is phased down for workers with between 20 and 30 years of Social Security coverage. In December 2017, more than 1.8 million people (or about three percent of all Social Security beneficiaries) were affected by the WEP, according to the Congressional Research Service.

However, although the current WEP adjustment may therefore have been intended to address what Congress saw as an inappropriate Social Security benefit “windfall” for certain public employees, its current design has nevertheless created several problems. For example, it has been shown by some studies to reduce Social Security benefits more for lower-earning public workers than for those earning higher amounts. Furthermore, a small change in years of coverage can cause large adjustments in benefits. Finally, as Urban explains, “the WEP is often not factored into estimates of future benefits, leading to many workers being surprised by the reduction when they go to claim their [Social Security] benefits and perceiving the adjustment as a cut to their earned benefits.”

Therefore, as an alternative to a full repeal of the WEP, as has been urged by many public employee groups, there have been serious proposals in the last several years to replace the WEP formula. Specifically, the Urban Institute study looks at the Equal Treatment of Public Servants Act, introduced in 2015 and again in 2018 (H.R. 6933) by Congressmen Kevin Brady (R-TX), the former chair of the Ways and Means Committee, and Richard Neal D-MA), its new chair, with strong bipartisan support.

Their legislation would replace the WEP with a new approach to calculating Social Security benefits, using data now available to the Social Security Administration on non-covered earnings for years after 1977. This would permit a more equitable, proportional formula for computing Social Security benefits based on the overall benefit replacement rate that would apply if all earnings had been covered, instead of relying on an arbitrary formula reduction.

In doing so, the new approach would also make other changes to the current approach. For example, the new proportional formula would apply to all beneficiaries with noncovered earnings without exception. Thus, unlike the current WEP, it would not prevent or limit reductions for beneficiaries who do not receive a benefit from their noncovered plan, or who only receive a small benefit.
The Urban Institute study claims the following impacts of the new formula:

- It would impose new Social Security benefit reductions on a group of future beneficiaries much larger than those, currently facing reductions, who would benefit from the changes.
- The vast majority of beneficiaries who would be affected would not have had their Social Security benefit reduced under the current WEP, but would now face reductions under the new formula because they would likely lose their exemption from the application of the current WEP which they previously would have been given for having more than 30 years of Social Security coverage, or for not receiving a pension because they never vested in one or withdrew their contributions early.
- Workers “could face reductions of 25 to 30 percent of their monthly Social Security benefit while receiving no pension from their years of noncovered work,” Urban warns.

The new study therefore recommends several options for policymakers to consider when making any changes to the current WEP formula. These include:

- **Requesting more detailed distributional analysis of affected beneficiaries**: “Given the tens of millions of retirees who will be affected by this policy, more extensive distributional analysis would help target protections for vulnerable beneficiaries and estimate the costs of those options,” the Urban study argues.

- **Changing regulations to improve the adequacy of noncovered pensions**: The regulations that establish the standards for testing whether noncovered government pension plans provide benefits equivalent to Social Security could be revised to protect short-tenured workers. “Currently, these regulations only consider whether a worker who stayed in a noncovered plan for his or her entire career will receive a benefit comparable to Social Security,” the Urban study notes.

- **Adding some of the WEP protections to the proposed proportional formula legislation**: Urban suggests adding provisions similar to those included in the current WEP that (1) prevent Social Security benefits from being reduced when no pension is received and (2) limit the amount of the reduction to one-half of the noncovered pension. This would “protect short-tenured workers and those who change jobs but lack portability of their benefits,” according to the new study.

- **Improving administration of the existing WEP using new data and analytical tools**: SSA can calculate the formula and administer the reduction under the proposed proportional approach using data it already collects. However, SSA may be able to use other data sources and methods to determine whether workers receive a pension, including data on tax form 1099-R, but accessing this data would require authorization for IRS to share these reports with SSA.

- **Making Social Security coverage universal**: The Urban study notes “the risks posed to noncovered workers by underfunding in government plans as a reason to consider universal coverage.” But it also acknowledges increased costs to state and local governments, and suggests facilitating the transition, policymakers should consider options to ease the burden of transition costs for the affected state and local governments, particularly if coverage is achieved in the context of a larger package of Social Security reforms.
While WEP reform remains a top priority for Congressmen Neal and Brady, it is still "a work in progress," according to those working closely with Congressional staff on the reform effort. Therefore, no new WEP legislation has been introduced in the new 116th Congress by either of them at this point.

Somewhat complicating matters is that legislation to repeal both WEP as well as the Government Pension Offset (GPO) has once again been reintroduced, and there is some thought that, with the House now in Democratic control, there could be some chance for that legislation to advance. The new repeal bill is H.R.141, introduced by Congressman Rodney Davis (R-IL), and it currently has 140 cosponsors.

- Urban Institute: "Reforming the Social Security WEP Exposes Weaknesses in State and Local Pensions"
- H.R. 6933, “Equal Treatment of Public Servants Act”

New Study of WEP Reform Raises Concerns; Accuses Teacher Pension Plans of Failure to Provide Benefits Truly Equivalent to Social Security

Part Two: FICA Replacement Plans

Proposed revisions to the Federal Windfall Elimination Provision (WEP) could serve to exacerbate perceived failures of state and local governments to provide employees not covered by Social Security with an equivalent benefit, a new study, funded by the Laura and John Arnold Foundation, charges. This could undermine the retirement security of noncovered workers and the rationale for the WEP adjustments, according to the Urban Institute, which released the study.

The Urban Institute research report, "Reforming the Social Security WEP Exposes Weaknesses in State and Local Pensions," provides important information concerning possible “winners and losers” under the proposed new replacement approach to the existing WEP formula Congressmen Kevin Brady (R-TX) and Richard Neal (D-MA) have been developing. But, as the report’s title suggests, the Urban study’s underlying purposes appears to be yet another attack on public pension plans, in general, and teacher plans in particular. It is familiar turf for them.

By way of background, when Social Security was passed in 1935, all state and local government employees were exempted due to constitutional concerns about the right of the Federal government to impose taxes on the states. In addition, most state and local government workers were already covered by public pension plans comparable to the new Social Security program.
Subsequently, new laws were passed expanding coverage to most government workers, including all Federal employees. And in 1990, Congress established the system for coverage we have today, whereby states and localities are required to adopt Social Security for their workers unless the benefits provided through their pension plans are at least equivalent to those provided by Social Security. That is, in order to be exempt from participating in Social Security, a governmental plan must qualify as a “FICA Replacement Plan.”

Generally, a defined benefit plan meets the requirement if the benefit under the system is at least 1.5 percent of average compensation during an employee’s last three years of employment, multiplied by the employee's number of years of service. Internal Revenue Service (IRS) Revenue Procedure 91-40 provides the formula for calculating benefits for periods more than three years, as follows:

- 37-48 months 1.55 percent
- 49-60 months 1.60 percent
- 61-120 months 1.75 percent
- Over 120 months 2.0 percent

According to a 2018 study by the Center for Retirement Research (CRR) at Boston College of the largest plans covering 80 percent of noncovered workers, benefit designs for uncovered state and local government employees meet these Federal Safe Harbor requirements.

Nevertheless, the Urban study claims state and local government pensions are not adequate or comparable to Social Security, “particularly for teachers and short-tenured workers.” Urban claims that “the benefit design of most noncovered plans effectively redistributes benefits from younger, mobile workers to older, longer-tenure workers.” They also argue that satisfying the current IRS safe harbors is not enough, because these “fail to account for key features of those plans such as vesting requirements, contribution rates, and back-loaded benefit structures.”

Indeed, Urban points out that the 2018 CRR study, noted above, also finds that while the surveyed plans may meet the legal requirements of equivalency, the parameters used to establish the safe harbor fail to take into account critical elements of Social Security benefits and, therefore, “they still fall short of Social Security for a significant minority of members,” roughly 43 percent of sampled noncovered plans.

Urban also says that the adequacy of public pension benefits “changed significantly in the wake of the 2008 financial crisis as governments faced with underfunding in their pension plans enacted changes to reduce costs and improve their funded ratios.” These changes, “though not violating the letter of the law with respect to the Social Security equivalency rules,” have important consequences for the retirement security of noncovered workers, particularly for those workers who are younger, newly hired, or future hires, Urban claims, pointing to increased employee contributions; lengthening of vesting requirements, sometimes to 10 years; increasing retirement ages; and other benefit formula changes.

Focusing on teacher pensions, the Urban study notes that the typical plan promises generous benefits for long-tenure teachers who complete their career in the same plan but claims those larger benefits “are financed by shorter-tenure teachers who receive far lower benefits.” This is especially troubling, the study insists, “given that over half of teachers will not stay in their jobs long enough to earn a pension at all.”
Urban therefore concludes that under the Brady/Neal proposal, public employees could face reductions of 25 to 30 percent of their monthly Social Security benefit while receiving no pension from their years of noncovered work or, if they receive a public pension, their Social Security benefit could be reduced by more than the amount of the monthly noncovered pension.

Their research report urges that IRS regulations governing the adequacy of noncovered pension benefits include a more comprehensive test of plan provisions that ensures noncovered workers receive benefits truly equivalent to Social Security.

Urban is not alone. It is generally agreed among practitioners that Federal Insurance Contributions Act (FICA) Replacement Plan requirements are outdated, and do not reflect plan design changes that have occurred over the 27 years since they were first issued.

Currently, no requirement that full-time participants be vested or that a minimum level of benefit be refunded upon termination is included, while part-time, seasonal, or temporary employees are required to receive a refund of employee contributions plus interest that is equal to at least 7.5 percent of compensation.

Should some version of the part-time rule also apply to full-time employees who leave employment prior to vesting? Some academics are raising the question.

However, the Urban Institute’s claims regarding teacher benefits are unfounded. For example, their report continues to insist that typical workers newly hired in 2018 “would have to wait over 20 years before their standard benefits surpassed the value of their personal contributions.” But a careful examination of the so-called studies that support such claims reveal that they are based on a highly-inflated value attributed to earnings on teacher’s “personal contributions” that the studies impute. For example, the Urban Institute has used an eight percent rate of return for the purposes of determining when the value of a teacher’s pension benefit will exceed the value of their personal contributions.

Urban is also guilty of citing reports that use young, new-hire turnover to represent the majority of the educational workforce. While it may be true that a large percentage of newly-hired teachers drop out early, often before they meet a state’s vesting requirement, it is also true that these employees do not return to teaching and account for only a very small percentage of teaching positions. Thus, although early career turnover is high in education, most of the teachers that a student will have during their K-12 education journey will have served 20 to 30 years or more before they leave public education.

“I think that the Urban Institute has raised some pertinent concerns regarding reforms of the WEP,” said Maureen Westgard, NCTR’s Executive Director. “I also think the rules applicable to FICA Replacement Plans should be updated to reflect recent plan design changes,” she continued. “But to somehow suggest that public pension plans are intentionally offering their employees who are not covered by Social Security an inferior retirement benefit is unwarranted and harmful to efforts to attract the best and the brightest to the education field,” Westgard concluded.

New ALEC Report on Public Pensions
Calls for Switch to DC Plans

Public sector defined benefit (DB) pension costs are soaking up limited government resources that could be used, instead, to fund core government services such as education and public safety, according to a new report from the American Legislative Exchange Council (ALEC). For the first time, the latest in this series of annual reports explicitly calls for state governments to switch to the defined contribution (DC) model.

ALEC was originally founded in 1973 as the Conservative Caucus of State Legislators. It proclaims itself to be “America’s largest nonpartisan, voluntary membership organization of state legislators dedicated to the principles of limited government, free markets and federalism.” Described by its critics as a “pay-to-play operation where corporations buy a seat and a vote on ‘task forces’ to advance their legislative wish lists,” ALEC policies support replacing traditional DB pensions in the public sector with 401(k) plans, which it claims will “offer state employees true retirement security, with the advantages of flexibility and mobility,” while “minimizing costs for the state taxpayers they serve.”

However, its annual reports on public pension plans, generically titled “Unaffordable and Unaccountable,” typically do not call for the complete conversion to the DC model. Instead, the 2016 version, for example, stated, “[t]he only way to solve this growing problem is for states to enact meaningful pension reform,” a more generic term embracing a number of options, such as the use of the risk-free rate for determining liabilities. The 2017 version pointed to recent pension reforms in Arizona, Pennsylvania and Michigan, calling them examples of ways to “bolster stewardship, modernize pension plans for new hires, and assume realistic rates of return” that will “protect taxpayers, employees and retirees alike.” In both cases, changes to the DB approach were included.

But its latest iteration of this document, “Unaffordable and Unaccountable 2018,” makes it crystal clear. After discussing the advantages of various hybrid plans and cash balance models, the report states that while these strategies illustrate ways states may limit the risks associated with pension mismanagement, “states can shed these risks entirely by switching to DC plans.” The employee would, in most cases, be responsible for selecting their investment strategy and the outcomes of their chosen strategy, and for the employer, “all costs are realized in the present, taking away the possibility for employers to underfund employee benefits altogether.”

The new ALEC report claims to survey more than 290 state-administered public pension plans, detailing assets and liabilities over a five-year period. The unfunded liabilities are reported using three different calculations:

- a state’s own estimates;
- estimates using an alternative discount rate “which reflects constitutional and other legal protections extended to state pension benefits;” and
- estimates using a fixed rate which compares funding ratios and “controls for changes in discount rate assumptions over time.”
The report purports to make several “key findings,” which include the following:

1. In total, states have accrued $5.96 trillion in unfunded liabilities, or about $18,300 per capita, based on ALEC’s use of its alternative discount rate. This rate is based on the equivalent of a hypothetical 15-year U.S. Treasury bond yield, derived from an average of the 10- and 20-year bond yields. ALEC shows this per-capita amount by state, ranging from a low of a $8,466 for Tennessee, to a high of $46,774 for Alaska.

2. Unfunded pension liabilities measured as a percentage of gross state product (GSP) are estimates of a state’s “ability to pay,” and “illuminate the severity of pension crises,” particularly in states with relatively small economies, according to ALEC. This percentage of GSP ranges from a low of 14.26 percent of GSP in Nebraska, to a high of 65.70 percent in Alaska.

3. Using their “risk-free” rate of return, ALEC claims all 50 state plans are well below an 80 percent risk threshold, with the average state funding ratio being 35 percent. The highest marks go to Wisconsin using the ALEC approach, with an estimated 60.54 percent funding ratio; the lowest is Connecticut’s estimated funding ratio of 20.28 percent. “Retirees and taxpayers alike could face reduced benefits, higher taxes, or both” as a consequence, ALEC warns.

4. ALEC used a fixed 4.5 percent discount rate to control for fluctuations in interest rates and discount rates to assess long-term funding ratio performance. While it concedes that many states “have successfully improved their systems,” others are “in a virtual free fall despite the current 10-year expansion in equities,” with the average change in funding ratio across the states “a mere 2.67 percent.” The best percentage change in funding ratio for the period 2013-2018 goes to Arkansas, with a 12.62 percent change, according to ALEC. The worst is awarded to Vermont, which ALEC says witnessed a -13.98 change.

As with previous reports, specific states are called out by name as being poor performers, or as doing better than most, so it is worthwhile to see if your state is mentioned, and where you fall in ALEC’s ratings of best to worst. However, overall, there is really not a lot new in the report’s criticism of the state of public pensions from previous reports, save for the clear endorsement of conversions to DC plans.

Of course, ALEC places the blame for all the problems it perceives on the pension plans themselves, and not on plan sponsors or legislatures, claiming that “most state-administered plans have resisted all reform efforts, which places retirees and taxpayers in a precarious position.”

Nevertheless, as Maureen Westgard, NCTR’s Executive Director, points out, “ALEC must be taken seriously, as they are very good at getting their ‘model’ legislation introduced in many state legislatures.” She pointed out, “NCTR continues to encourage our members to familiarize themselves with this new report, as it will likely soon be a topic of conversation with certain legislators in your state.”

If you are engaged in such a conversation, here are a few key points to remember:

- ALEC’s claim, “every dollar that is spent filling the gap in public pensions is a dollar taken away from core government services”—thereby forcing legislators to make the difficult decision between leaving their citizens with fewer services or enacting economically damaging tax increases—ignores the fact that nearly all employees of state and local government are also
required to contribute to their retirement plans. Furthermore, following the 2008–09 financial crisis, employee contribution rates in many states have increased for both new hires as well as current employees. Clearly, employer contributions are not the only dollars that are spent to fund public pensions.

- The employer contribution is a form of deferred compensation and is therefore owed to public employees in return for their work in providing these “core government services” that ALEC warns will suffer when employers have to pay for their full costs. Also, unfunded liabilities often reflect the increased costs that result when the contributions required of employers to fund their overall compensation commitment are not fully paid. In short, there is a lot of blame to go around when it comes to unfunded liabilities.

- Investment earnings are the primary source of pension funding. On a nationwide basis, contributions made by state and local governments to pension trust funds account for a relatively modest 4.7 percent of direct general spending. ALEC converts this relatively small percentage to a “per capita” number to make it sound scarier.

ALEC may be viewed by some as a “corporate bill mill,” as one former ALEC member described it, but it is an influential group with many state legislators. Its influence is to be discounted or ignored at your peril.

- ALEC: “Unaffordable and Unaccountable 2018”

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**Snapshot of this Week's FYI**

1. Legislation, as well as new Federal regulations, have been proposed to address the rising cost of prescription drugs. But serious concerns are being raised about proposed regulatory changes affecting drug pricing transparency and manufacturer rebates, and their potential effects on the ability of health plan providers to reduce the cost of their drug benefits.

2. Expanding the number of people with health insurance coverage is a hot topic in Washington. Several proposals could have a major impact on the voluntary, market-driven, employment-based system that predominates today.

3. Using investments as a means to advance certain social policies through the tool of divestment is not new. From genocide in the Sudan to gun massacres in America's public schools, divestment can be a controversial topic for public pension plans to deal with.
Don't Miss Out! You Still Have Time to Register

In-kind contributions as partial payment of an ARC are a serious threat that is gathering steam. They are often linked with the need to address the nation’s infrastructure challenges. Boards need to be prepared to know what questions to ask, as well as what actions to take to be sure they are exercising their fiduciary duties effectively. Therefore, be sure to join us for an upcoming Federal webinar, entitled, "Infrastructure and In-Kind Contributions," to be held on Wednesday, March 20 at 3 PM/ET.

To read more about webinar details and to register, click here.

Prescription Drug Prices

Legislation, as well as new Federal regulations, have been proposed to address the rising cost of prescription drugs. But serious concerns are being raised about proposed regulatory changes affecting drug pricing transparency and manufacturer rebates, and their potential effects on the ability of health plan providers to reduce the cost of their drug benefits. Whether or not your system administers healthcare, the potential impact on your employees and retirees should be of interest and concern.

Increasing prescription drug prices was a hot topic during the 2018 mid-term elections. And no wonder: AARP reports annual price increases for brand-named drugs have exceeded the corresponding rate of inflation every year since at least 2006, and the retail prices for brand-named drugs in 2017 increased four times the rate of inflation.

The cost of specialty medications is particularly problematic. For example, the average specialty medication may cost more than $2,500 per prescription. Indeed, Willis Towers Watson estimates that when projecting cost increases through 2020, spending on specialty drugs will exceed what employers will pay for inpatient hospitalizations.

Furthermore, total gross spending on prescription drugs in 2017 totaled $154.9 billion in Medicare Part D, $30.4 billion in Part B, and $67.6 billion in Medicaid, according to the Centers for Medicare & Medicaid Services (CMS), the Federal agency within the United States Department of Health and Human Services (HHS) that administers the Medicare program and works in partnership with state governments to administer Medicaid.

The bottom line? Overall, consumers, insurers and the government, collectively, spent $333 billion in 2017 on prescription drugs, according to National Health Expenditure (NHE) data, which provides the official estimates of total health care spending in the United States.
Not surprisingly then, prescription drug pricing is the focus of much attention in Washington, D.C. There have already been several Congressional hearings on the topic in 2019, and “[d]rugmakers are feeling the heat,” as a recent article in MarketWatch noted. Perhaps it is therefore no surprise prescription prices dropped one percent in February, marking the biggest one-month decline ever.

However, experts are skeptical this downturn will last. Every big drop in drug prices since the early 1970s has eventually been followed by a rise in costs, the MarketWatch article points out, and economists are doubtful it will turn out any different this time. Many think the declines in drug and medical prices in February are extremely unlikely to be repeated on a regular basis.

While a number of bills have been introduced to address prescription drug issues, the most imminent proposal is regulatory in nature, and targets the amount of out-of-pocket costs beneficiaries must pay at the point-of-sale for certain prescription drugs. The goal of the proposal is to create structural changes that lead to increased competition and transparency in the pharmaceutical marketplace and ultimately lower prescription drug costs.

Succinctly put, the regulations proposed by HHS would replace Medicare Part D and Medicaid Managed Care Organization (MCO) rebates with upfront patient discounts and fixed fees paid by manufacturers to pharmacy benefit managers (PBMs). That is, it would eliminate the portion of retrospective rebate payments paid by manufacturers to PBMs, that are generally then paid to plan sponsors, and replace these with point-of-sale discounts that would benefit affected beneficiaries through lower out-of-pocket costs.

The proposal would not apply to non-Medicare group health plans or commercial insurers. The effective date, as proposed, would be January 1, 2020.

According to the Segal Company, HHS is proposing to end rebates because it views the rebate-based system as harming beneficiaries and the Federal government. The purpose of eliminating rebates is to provide manufacturers with an incentive to lower list prices and provide PBMs more incentive to negotiate greater discounts from manufacturers.

The intent, according to Segal, is to provide these discounts to beneficiaries at the point of sale, thereby permitting “head-to-head comparisons of true net cost by specific competing drug in the same therapy class.” Also, by applying the full impact of the drug specific rebate at point of purchase, patients with coinsurance or high deductible plans “would likely experience reductions in cost sharing for brand-name drugs that offer substantial rebates,” Segal explains.

So, what is the concern? Shifting retrospective rebates from drug manufacturers to point-of-sale discounts is “a logical step towards greater pricing transparency and beneficiary equity,” Segal acknowledges. What is unclear, however, is whether this proposed change would ultimately result in lower overall prescription drug costs, they point out.

“Such a change would dramatically upend the pricing structure of prescription drugs between drug manufacturers, PBMs and Medicare Part D plans, and potentially all plan sponsors,” Segal explains. And if renegotiating contractual terms in a manner
that at least maintains the existing economic position of plans is necessary, this will be “highly dependent on how drug manufacturers react to the changing regulations that prohibit rebates as they are offered today,” Segal warns.

In short, **the proposed new regulations could potentially require increases in premiums for Medicare Part D plans, including Medicare Advantage plans that provide prescription drugs**, depending on how and when the changes are implemented.

Recently, in a call with its members, the Public Sector HealthCare Roundtable, a non-profit, non-partisan coalition of public sector purchasers from across the U.S. including states, counties, and municipalities, determined that a majority of their members have serious concerns that this proposal would have a negative impact on their ability to utilize rebates to reduce the cost of their drug benefits. The Roundtable is currently surveying its membership to determine, among other things, any current arrangements to pass rebates back to the plan or members that would be affected by this rule change; the impact of the current rebate arrangement on premiums; and what impact the current rebate arrangement has on generic prescribing rates.

Based on these responses, the Roundtable plans to prepare comments in response to the Administration's proposal. **The deadline for such comments is April 1, 2019.**

For more information on these regulations and planned responses to them, you may wish to contact Andy Sherman, Senior Vice President with Segal Consulting and national director of Segal’s public sector market.

- HHS: “Fact Sheet: Trump Administration Proposes to Lower Drug Costs by Targeting Backdoor Rebates and Encouraging Direct Discounts to Patients”
- Segal Consulting: “HHS Proposes Replacing Rx Rebates with Point-of-Sale Discounts for Medicare Part D and Medicaid Managed Care Organizations”
- *Forbes*: “‘Stop Rx Greed’ Campaign Calls on Washington to Cut Drug Prices”
- *Modern Healthcare*: “Senators to Boost Trump’s Proposed Ban on PBM Rebates”

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**Are Changes Coming for the U.S. Health Benefits System?**

Expanding the number of people with health insurance coverage is also a hot topic in Washington. Several proposals could have a major impact on the voluntary, market-driven, employment-based system that predominates today. What does the future hold for the nation's health benefit system? A new study examines the questions involved in this debate.

In addition to a focus on prescription drug pricing, the 2018 mid-term elections also raised serious questions concerning the current employment-based health benefits system, which is the most common form of health coverage in the United States today, covering 167 million people under age 65 in 2017. The debate promises to intensify as the 2020 elections increasingly dominate the national discussion on such
policy matters, with Democrats, in particular, pushing for what some would see as radical change.

Medicare-for-all, proposals that would allow insurance to be purchased in the individual market using employer funding, and market developments such as the gig economy and high-priced medical advances like specialty medications, may all affect whether there is an employment-based health benefits system in the future, according to a new study by the Employee Benefit Research Institute (EBRI). EBRI is a nonpartisan, nonprofit research institute based in Washington, D.C., that produces original research on health, savings, retirement, and economic security issues.

Their study begins by noting that between 2013 and 2017, the percentage of individuals with employment-based health insurance coverage has been growing. This increase may be due to the increase in the percentage of employers offering such benefits, EBRI suggests, “which may in turn be due to a combination of the strengthening economy, lower unemployment rates, and relatively low premium increases.”

In any case, surveys show that nearly 60 percent of workers are satisfied with their current mix of health benefits and wages, and most individuals with employment-based health benefits are satisfied with their coverage.

So, why is there an interest in potentially getting rid of this employer-based approach? After all, insurers are often more willing to provide insurance for a “naturally formed” employment-based group than for a group that was formed solely for the purpose of buying health insurance. This is because the risks of adverse selection are mitigated in this manner. That is, a naturally formed group creates a risk pool that permits the higher costs of the less healthy to be offset by the relatively lower costs of the healthy. But when the group attracts a disproportionate share of unhealthy individuals because they may have greater health care needs and are more likely to purchase health insurance, this is called “adverse selection.”

EBRI also points out other advantages of the employer-based system. These include group purchasing efficiencies, and the role the employer can play in finding and negotiating lower health insurance costs than workers can in the individual market.

However, there are also reasons to support de-linking health insurance from employment, EBRI notes. Perhaps the first is that the employment-based health benefits system does not guarantee universal coverage. Many employers, especially smaller employers, often choose not to participate, EBRI points out. For example, only 23.5 percent of employers with fewer than 10 employees and 49.2 percent of employers with 10–24 employees offered coverage to workers in 2017.

“The percentage of employers offering health benefits ebbs and flows with the economy and other factors,” EBRI explains. For example, now that unemployment is low, recruiting and retaining workers becomes a bigger challenge for employers, which in turn often means improving compensation and benefits, such as healthcare.

Another reason for de-linking health insurance from employment involves the lack of choice of a health plan among workers with employment-based coverage. Employers decide which health plan to offer employees and the employer choice of plan may not match the employee choice. “Moving workers into a health insurance exchange
would allow workers to choose from among all of the available health plans,” EBRI notes.

But perhaps one of the most important reasons supporting a change is the lost revenue associated with employer-provided health benefits, which are not treated as wages to employees and therefore not subject to Social Security, Medicare, or Federal income tax withholding. This revenue that the Federal government could otherwise collect in taxes but for the fact that it wants to promote a certain social goal – in this case employee healthcare – is what makes up this so-called “tax expenditure.” EBRI says the Congressional Budget Office (CBO) estimates that employer and employee contributions toward health coverage will account for $282 billion in forgone tax revenue during FY 2019 and nearly $3.7 trillion over 2019–2028.

It is the largest tax expenditure in the U.S. budget.

Therefore, as EBRI explains, “[t]he large dollar amounts associated with the tax exclusion of employment-based health benefits makes it an almost inescapable target for policymakers from both a budgetary and a political perspective.” That is, capping, reducing, or eliminating the tax preference could generate additional Federal revenue that could then be used to reduce the budget deficit, for example, or for other things.

“Or it could be used to pay for a new round of health reform,” EBRI underscores. Indeed, as noted earlier, during the 2018 election, many Democrats expressed support for “Medicare-for-all.” In various single-payer or Medicare-for-all bills, employment-based health insurance would cease to exist.

But there are also a number of ways the tax expenditure could be used differently while maintaining employment-based coverage, assuming individuals do not otherwise change their behavior in response to the change in subsidies. For example:

- The subsidy could be limited to only individuals below 400 percent of the Federal poverty level (FPL). This would result in total tax expenditures dropping to $125.6 billion.
- Subsidies could not only be limited to individuals below 400 percent FPL but could also be capped at the value of less-comprehensive insurance. This could reduce total tax expenditures to $101.9 billion.
- The subsidy for employment-based coverage could be eliminated and individuals with employment-based coverage would move to the non-group market. “Under this scenario, if the subsidy were limited to individuals below 400 percent FPL, total tax expenditures for this group would increase to $445.7 billion,” EBRI estimates.

Finally, under various proposals for a public plan option and Medicare/Medicaid buy-in, there would not be a direct impact on the employment-based health insurance system. Employers would continue to be able to offer coverage as they do now if they so choose.

But these proposals could, nevertheless, affect the extent to which employers continue to offer health benefits as well as the manner in which they offer it. Other changes to the tax treatment of employment-based health benefits could have a more significant impact, including the Trump Administration’s proposal to expand the use
of Health Reimbursement Arrangements; individual tax credits; and proposals to allow individual premiums to be paid from health savings accounts (HSAs).

So, change may well be in the air for the health care system, as we know it. However, EBRI warns it is “unclear whether employers would trade off more government involvement in health care for less of their own involvement if given the opportunity, especially in a weak economic environment.” Therefore, their new study concludes, “thoughtful consideration of policy proposals to expand the number of people with health insurance coverage should not only evaluate their effectiveness in addressing health care costs, quality, and coverage,” but the impact on the voluntary, market-driven, employment-based system, as well.


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**Divestment: An Update**

Using investments as a means to advance certain social policies through the tool of divestment is not new. From genocide in the Sudan to gun massacres in America’s public schools, divestment can be a controversial topic for public pension plans to deal with. Recently, two specific divestment efforts have gained renewed attention: one involving Israel and the Palestinian Territories, and the other dealing with private prisons. What is the latest?

**Israel**

First there was the “boycott, divestment, and sanctions” (BDS) movement aimed to end Israel’s occupation of the Palestinian territories. Since 2005, the BDS Movement has organized campaigns around the world demanding the divestment of university, municipal, church, union, pension and other investment portfolios from companies that do business with Israel.

In the United States, the BDS Movement has met with some success on a number of college campuses, and American churches have also been widely supportive. However, more recently, there has been a push-back involving the BDS Movement and a number of states have taken action to effectively “boycott the boycotters.” For example, legislators and governors in approximately half the states have now acted to effectively punish those that support the BDS movement. These efforts include laws that restrict public pensions plans from investing in companies deemed to support anti-Israel economic boycotts.

Some states have also authorized pension plans to divest from companies that violate these restrictions, and other states prohibit state agencies from doing business with BDS supporters, according to a recent article in *Pensions & Investments*. However, it reports that a sampling of state action reveals few divestitures by public pension plans.

As an example of how one state deals with the requirements related to this anti-boycott effort, *P&I* cites Colorado, whose law requires the board of trustees of the Colorado Public Employees Retirement Association (COPERA) to prepare a list of restricted companies and prohibit future investments in them. A company can be
removed from the restricted list "If PERA becomes aware, through further research and engagement, that a restricted company has ceased activity of economic prohibitions against Israel," but if a company remains on the list for 180 days, the law says it must be divested.

While the COPERA board has issued a statement earlier this year saying they will follow the law, they also expressed concern about interference with their fiduciary duties, noting, "[o]nce a divestment mandate is imposed to address one issue, the resulting 'slippery slope' makes differentiation among the remaining issues contentious and divisive." They also pointed out ordering a divestment "comes with significant associated costs," including hiring a search firm to check for possible violators, buying and selling securities, conducting due diligence for finding replacement securities or funds, and creating strategies that exclude certain investments.

The *P&I* article also discusses similar laws in New Jersey, Iowa, North Carolina and Florida. It notes these laws “can create tension for the plan managers.” Indeed.

Most recently, in February of this year, the U.S. Senate passed S.1, "Strengthening America’s Security in the Middle East Act of 2019" by a vote of 77 to 23. It includes a title to ensure that federal law does not preempt measures by state and local governments to divest from entities that engage in certain boycott, divestment, or sanctions activities targeting Israel.

So, even the Federal government is now involved in this anti-boycott effort. Be prepared for this action -- even though it has not become federal law yet -- to be an additional tool to try to force adoption of anti-boycott divestment proposals in the states that do not yet have them.

**Private Prisons**

Another focus for divestment picking up steam deals with private prisons. For some time, groups such as the American Federation of Teachers (AFT) have been focused on immigration detention centers and private prisons. For example, in early February 2019, AFT released its report entitled "Private Prisons and Investment Risks, Part Two: How Private Prison Companies Fuel Mass Incarceration—and How Public Pension Funds Are at Risk."

The report discusses direct and indirect investments public pension funds have in firms that own for-profit companies that provide services to detention facilities and urges trustees to divest from companies that fuel both industries, including companies which directly own and operate detention centers and private prisons. State governments are already “beginning to curb the footprint of private prisons,” AFT notes, pointing out that governors in Illinois, Iowa and New York have signed legislation banning private prisons, and the California State Teachers’ Retirement System (CalSTRS), the New Jersey Pension Fund and the Chicago Teachers Pension Fund have all voted to divest from such holdings.

More recently, JPMorgan Chase, the nation’s largest bank, concluded that its investments in private detention centers conflicted with its broader business strategy, and a spokesman announced that “We will no longer bank the private prison industry.” This action follows similar steps taken by Wells Fargo and U.S. Bank, which are reportedly in the process of divesting from the private detention sector.
The Washington Post also points out pressure on financial firms is also building among newly elected Democrats in Congress. For example, Congresswoman Alexandria Ocasio-Cortez (D-NY), a freshman on the House Financial Services Committee, has called for hearings to “make these banks accountable for investing in and making money off of the detention of immigrants.” It is also believed that immigration activists see the campaign to get banks to divest from private prison companies as a backdoor way to abolish U.S. Immigration and Customs Enforcement (ICE) by taking away its capacity to detain illegals caught crossing the southern border.

In any case, expect the pressure both on and off Capitol Hill to increase in the days ahead involving private prisons and mass incarceration centers. This will undoubtedly spill over into the public pension divestment arena.

But opponents of the use of public pension investments to accomplish social policy goals are also making their voices heard. For example, Alicia Munnell, Director of the Center for Retirement Research (CRR) at Boston College, recently wrote an opinion piece for MarketWatch in which she underscored that public pension funds “are particularly ill-suited vehicles for social investing” for several reasons:

1. Adding a new criterion to the investment decision will increase the likelihood of lower returns. Introducing divestment requirements will take investment staff’s eye off the prize, she warns, which is “maximum returns for any given level of risk.”
2. Divesting a few stocks will have little impact on fund returns; divestiture as standard procedure will sharply increase administrative costs and lead to lower returns.
3. Advocates for divestiture are either politicians or legislators, while the stakeholders are tomorrow’s beneficiaries and/or taxpayers. “If divestiture produces losses either through higher administrative costs or lower returns, tomorrow’s taxpayers will have to ante up or future retirees will receive lower benefits,” Munnell warns. “The welfare of these future actors is not well represented in the decision-making process,” she points out.

Munnell concludes by stressing many public plans are not well funded and face real challenges that need to be addressed. “Advocating for divestiture is a frivolous diversion,” she warns.

- **Pensions & Investments:** “States Acting to Deflate Movement That Seeks to Hurt Israeli Economy”
- **MarketWatch:** “Opinion: Politicians Suggest That Public Pension Plans Divest”
- **Inequality.org:** “Teachers Urge Divestment from Private Prisons”
- **The Washington Post:** “Banks Bow to Pressure to Stop Profiting From Trump’s Immigration Policy, But Big Tech Remains Defiant”

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**NASRA News Clips**

April 3, 2019

**Studies & Reports**
**In the Media**

Kentucky Legislature freezes contribution rates for many employers and gives them an exit strategy

Legislative leaders say House Bill 358 will save many of those agencies from bankruptcies since they can’t afford to pay increasing pension payments. The agencies include local health departments, domestic violence shelters, rape crisis centers, and some public universities. Under the bill, those agencies would be treated as one. Their pension contributions would be frozen at 49 percent for one year only. ... after that, the plan would also let the agencies leave, which could cost the pension system up to $799 million over the next few decades.

**WKYT**

Pennsylvania General Assembly approves bill expanding crimes that result in forfeited public pension

The legislation expands the law to apply to state and federal felonies and other crimes that could result in at least five years behind bars, on top of an existing list of crimes related to public office or public employment. ... Part of the impetus for the bill was a 2017 decision by the State Employees' Retirement Board to reinstate the pension benefits of a former state senator who pleaded guilty to federal charges. Former state Sen. Robert Mellow lost a $246,000-a-year pension after his 2012 plea to a conspiracy charge for using Senate staff to work on political campaigns.

**WITF**

NASRA: Selected State Policies Governing Termination or Garnishment of Public Pensions

Federal Focus

U.S. House Ways & Means Committee clears retirement savings package

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, bipartisan legislation sponsored by the committee chairman and ranking member, was unanimously passed and includes core provisions of bills introduced over the last two Congresses. Among other things, the legislation would delay the age of required minimum distributions, encourage lifetime income options, make it easier to offer and increase auto-enrollment, and allow private businesses to band together to offer retirement plans. A similar, though not identical, bill has been introduced this week by the chairman and ranking member of the

New book chronicles David Bronner and growth of the Retirement Systems of Alabama

RSA funds under management grew from some $600 million in 1973 to $43.8 billion in 2018 while earning $52 billion in investment income and paying $51 billion in benefits. RSA's most famous investment is The Robert Trent Jones Golf Trail with its 26 golf courses and 8 resort hotels. RSA's other alternative investments were in 65 TV stations, 125 newspapers, and 15 buildings in Alabama and New York City. It serves as a memoir of Dr. David G. Bronner's activities at RSA and preserves these memories for Alabama history.

**Information and to purchase**

Research finds that cities reliant on property taxes have stronger pension plans than those that rely on state aid

"Cities that depend on less-stable revenues and also on state aid may be more focused on maintaining their operating solvency than on funding longer-term obligations," says the report's author. To maintain adequate pension funding, the report recommends that cities with less-stable revenues employ stricter pension contribution rules and strengthen their budget stabilization capacity to withstand times of fiscal stress. ...Wealthier tax bases and larger concentrations of the age 65 and over population were also correlated with underfunding pensions, while more renter-occupied households were associated with smaller unfunded liabilities.

**Governing**

GAO: Half of Americans have no retirement savings

Of those 55 and older, 48 percent had nothing put away in a 401(k)-style defined contribution plan or an individual retirement account, according to a GAO estimate for 2016 that was released Tuesday. That's an improvement from the 52 percent without retirement money in 2013. Two in five of such households did have access to a traditional pension, also known as a defined benefit plan. However, 29 percent of older Americans had neither a pension nor any assets in a 401(k) or IRA account.

**Bloomberg**

See the study

Andrew Biggs: Not true

Actuarial Standards Board releases second exposure draft on revisions on setting assumptions
Federal court finds ERISA does not preempt CalSavers mandatory IRA

"This case presents novel legal questions concerning state-mandated retirement savings accounts. While the matter implicates a significant body of judicial and regulatory interpretations of ERISA, it nevertheless coalesces around a single narrow question: does CalSavers, a state-mandated auto-enrollment retirement savings program, create an 'employee benefit plan,' such that it is preempted by ERISA? For the reasons set forth below, this Court finds that it does not and therefore grants defendants' motion to dismiss."

U.S. District Court for the Eastern District of California

Perspectives

Olivia Mitchell on the perils of paying retirement benefits as a lump sum

Lump-sum pension payments may not work out well for retirees who opt for them. While a debate has ensued on the merits and risks of lump-sum pension payments for employees, there are also wider concerns about the long-term impacts on the entire economy when retirees do not have sufficient financial resources to support themselves. Those concerns are assuming a new importance because of the rapid growth of the so-called gig economy with temporary workers and freelancers who don't enjoy employer-sponsored retirement benefits. Knowledge@Wharton

Penelope Loring

People

Michael Nehf announces his impending retirement from STRS Ohio

Mr. Nehf has served as executive director at the State Teachers' Retirement System of Ohio since 2008. He is a CPA and has worked in the public pension community for more than 30 years, serving previously as executive director at the ERS of Georgia and for the Public School Teachers' Pension and Retirement Fund of Chicago. He intends to retire in June 2020.

Job Postings

For details on open positions, visit Careers @ NASRA.org

National Association of State Retirement Administrators

NASRA News Clips

In the Media

Thirty-year old legislation benefiting elected officials comes back to haunt Oklahoma PERS

"We call it the roll up, or the tag-along provision," said Joe Fox, Executive Director of the Oklahoma Public Employees Retirement System. Fox says the provision was tucked into a large 1988 pension bill, HB 1588, which allowed state and county elected

Tweet of the Week

Unlike in the private sector, nearly all employees of state and local government are required to share in the cost of their retirement benefit.

Studies & Reports

State and local governments continue to add jobs
officials to roll up any time in a non-elective state or county job with their elective time. "We were shorted six and a half percent for every person, during every pay period, and for every year of service that was counted as elected service." The fiscal burden that put on the system, in combination with some down years in the market, pushed OPERS' funded ratio to just 66 percent by 2009. A year earlier, seeing the handwriting on the wall, lawmakers had repealed the provision. News

Vermont faces consequences of years of underfunding its teacher pension plan

"There's nothing left," said Senate Appropriations Chair Jane Kitchel, referring to what's left of available revenue after pension liabilities are paid down. About 40% of that revenue will cover pensions, with most of the rest funding bond payments and debt service. Kitchel said this makes funneling new money to government programs practically impossible. ... For years, the state's budget writers have faced a growing burden from the teachers' pension fund liability. It dates back to 1989, when Gov. Madeleine Kunin's administration decided to underfund pensions to free up cash for current spending. Her successor, Gov. Howard Dean, who inherited a deficit, drove pension funding even lower - a decision he says today that he doesn't regret. VTDigger

S&P adds new ESG investing index

"An increasing number of investors require indices that are aligned not only with their investment goals but also their individual and institutional values. The S&P 500® ESG Index is constructed with both of these needs in mind. Unlike many ESG indices that preceded it - which were more thematic or narrower in their focus - the S&P 500® ESG Index is broader and developed to target the core of an investor's portfolio," said Reid Steadman, Global Head of ESG Indices at S&P Dow Jones Indices. Press release ESG Investing@NASRA.org

The U.S. Bureau of Labor Statistics reported that state and local governments gained an estimated 16,000 jobs in March 2019. Revisions to prior months' data added 47,000 state and local government jobs to the running total. As of March 2019 the BLS identifies approximately 19.7 million individuals employed by state and local governments, a figure equal to approximately 13 percent of the nation's workforce. Employment by states and local government has exhibited solid--but uneven--growth since reaching its recent low point in 2013.

Employment@NASRA.org

Fidelity updates its annual estimate of retiree health care costs

The past two years combined have seen a slower rise (3.6 percent) than in the previous two (2015-2017), which saw the estimate grow to $275,000 from $245,000 (up a total of 12.2 percent). Even without the same rate of growth, some retirees are still surprised by today's cost of health care. News release OPEB@NASRA.org

Perspectives

Ray Dalio on 60 Minutes: Wealth inequality is a national emergency

Dalio's firm manages $160 billion. It has all the excitement of an insurance agency. Dalio's analysts don't chase the gyrations of the market. Instead, they quietly study centuries of history looking for patterns in stocks, politics, anything to help buy winning investments. Dalio is especially bullish on China, which he predicts will be the greatest economy of the 21st century and America's greatest rival. Video and text

Job Postings

For details on open positions, visit Careers@NASRA.org

National Association of State Retirement Administrators

NASRA News Clips

April 17, 2019

In the Media

Studies & Reports
"The first thing you have to do is make up what you lost," said Sandy Matheson, executive director of the Maine Public Employees Retirement System. "And it takes years. And then you have to make up what you didn't earn on what you didn't have. It's a pretty steep climb."

De-carbonization panel publishes recommendations for changes to New York Common Fund investments

The panel's primary recommendation is for the Fund to transition its investments to 100 percent sustainable assets by 2030. Sustainable assets are investments, of any type, that are consistent with a 2-degree or lower future. The panel suggests that this would be accomplished by ramping up investment in sustainable assets and climate solutions, and establishing minimum standards to prioritize engagement and possible divestment.

Domestic and child abuse programs are at risk as Kentucky employers face spiking contribution rates

Eight of the 15 regional domestic violence programs in Kentucky are in the troubled Kentucky Employees Retirement System. The eight are among the 118 so-called "quasi-governmental" entities seeking relief from the spike in required pension contributions that start July 1. Much of the public debate surrounding the crushing pension costs that begin this summer has focused on the serious impact on local health departments, some of which are expected to be driven to insolvency, or regional state universities, which say they must make deep cuts and/or raise tuition.

Wilshire publishes annual report of state pension funding levels and asset allocation

This year's report is based on the financial statements reported by these state plan sponsors as of their last fiscal year ends-June 30, 2018 is the most frequent measurement date for plans in this year's report. Wilshire estimates that the aggregate funded ratio was 72.2% at fiscal year-end 2018, which represents an increase of 1.7% from the end of FY 2017 creating two consecutive years of aggregate funded ratio increases.

SPARK paper lays out retirement industry cyber-security framework

The SPARK Institute came up with a framework for cybersecurity disclosure by plan providers. It includes 16 identified critical data security control objectives, and requires plan providers to use an independent third-party auditor. Each audited report, regardless of the security framework used, must include a detailed report showing identified controls mapped to one of SPARK's 16 control objectives.

Tweet of the Week

Pension benefits for employees of state and local governments are paid from trust funds to which public employees and their employers contribute during employees' working years.

Federal Focus

Executive Order includes investigation into pension fund ESG investing and proxy voting rules

President Trump issued an executive order primarily designed to curb states' power to block energy infrastructure projects. However, it also contained a provision on "Environment, Social, and Governance Issues; Proxy Firms; and Financing Energy Projects Through the United States Capital Markets," which requires the Labor Department to review ERISA plan

Perspectives

What Maryland can learn from Michigan's switch to a 401k plan

President Trump issued an executive order primarily designed to curb states' power to block energy infrastructure projects. However, it also contained a provision on "Environment, Social, and Governance Issues; Proxy Firms; and Financing Energy Projects Through the United States Capital Markets," which requires the Labor Department to review ERISA plan
One way to address the underfunding problem would be for governments to stop offering retirement benefits that allow them to kick the costs of today's workforce onto tomorrow's taxpayers. Instead of providing underfunded pensions, they should contribute to individual retirement funds and put retirement in employees' hands. This is what Michigan did for its state employees in the 1990s. Read the opinion Maryland SRPS response

BlackRock: Despite declining return expectations, opportunities remain to generate returns while managing risk

We recently analyzed a representative group of public pension portfolios. We found that the gap between assumed and expected median returns is narrowing but still significant. At the same time, our work also suggests there are practical steps many plans could take to close the gap in a prudent way—building resilient portfolios that are positioned for potential growth while mitigating downside risk. Read the white paper

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Energy investment trends and the agency's proxy voting guidance. Although it will not have an immediate impact on retirement plans, it may result in future guidance and/or regulations, and it demonstrates the Administration's interest in limiting the impact of institutional investors' ESG focus on the fossil fuel energy industry. Washington Examiner

Groom Law Group

Executive Order

NASRA News Clips

In the Media

CalPERS says engagement with companies on climate list is paying off

CalPERS, the largest US pension plan, is one of the founding members of Climate Action 100+, which represents 300 institutional investors and $32 trillion in assets under management. Climate Action 100+ publicly discloses all of its more than 160 target companies, in an approach that resembles in part CalPERS's former policy of "naming and shaming companies" that were underperforming because they did not have good corporate governance or were lax in sustainability policies. CIO ClimateAction100.org

How rising pension costs are affecting school district budgets

Studies & Reports

Annual EBRI survey finds higher confidence in Americans' ability to live comfortably in retirement

Asked to identify their guiding principle for managing finances in retirement -income stability vs. preserving principal and wealth-a majority of both retirees (65 percent) and workers (74 percent) select "Income Stability: Ensuring a set amount of income for life." ... Eight in ten workers (82 percent) expect income from a workplace retirement savings plan (separate from a pension plan), while just half of retirees (54 percent) report this is a source of income. News release

Federal Focus

For details on open positions, visit Careers @ NASRA.org

April 24, 2019
Colorado’s share-the-pain approach to pension reform is one that more states may turn to as they seek to prevent their pension funds from going bankrupt and leaving retirees holding the bag. Yet the attempt at solvency could further depress teacher pay, which is already so low that it has prompted recent teacher walkouts in a number of places around the country (including Pueblo and Denver), and crowd out money for things like school supplies and building repairs. With no simple solutions in sight, pension debt may be a millstone on many school district budgets and teacher salaries for decades to come.

The Hechinger Report

Moody’s lowers Vermont’s bond rating due to aging population and unfunded liabilities

Citing the state’s unfunded pension obligations and aging demographics, Moody's lowered Vermont’s bond rating from Aaa, its highest ranking, to Aa1, the second-highest designation. Analysts at Moody's said the downgrade was related to "an economic base that faces low growth prospects from an aging population."

Vermont Public Radio

Credit Effects@NASRA.org

Tweet of the Week

ESG investing refers to the consideration of three non-financial factors—environmental, social, and governance—in assessing an investment's potential risks and opportunities. This approach to investing is based on a belief that ESG factors can affect a portfolio’s performance and therefore should be considered, with more traditional financial factors, when making investment decisions.

IPFI: ESG and the Proxy Process

ESG Investing@NASRA.org

2019 Trustees Report extends Social Security fund exhaustion date by one year, disability fund by two decades

Social Security’s trust funds will be depleted by 2035, one year later than last year’s trustees report projected. Also, for the first time since 1982, Social Security’s total cost is expected to exceed its total income in 2020 and continue that way through 2093. This is two years later than formerly projected. The trustees dramatically revised their estimates for the lifespan of the Disability Insurance Trust Fund, which now won't be depleted until 2052, two decades later than projected last year. The number of people on federal disability and new applications have been on the decline in recent years.

CNN

2019 OASDI Trustees Report

"Dark money lobbying group going after pension funds"

The Institute for Pension Fund Integrity began its campaign to "keep politics out of pension funds" a year ago and has since released several white papers to the mainstream media, submitted reports to the SEC, and targeted specific state funds. The organization condemns divestment initiatives and is scheduled to hold an event at the National Press Club next month regarding its report claiming ESG policies hamper public fund performance and more regulation of proxy advisory firms is needed. However, information it publishes on public plans frequently contains errors and the founder refuses to divulge who is funding the organization. 

Institutional Investor

People

Florida Department of Management Services names new retirement system director

The Secretary of the Florida Department of Management Services has named David DiSalvo as the new director of retirement services. Mr. DiSalvo previously served as director of the agency’s human resources and benefits administration system. He
vested after five years of service, we can take Alaska’s money to one of the 49 states currently offering a defined-benefit plan and dedicate a full career of service there. Our current retirement system for teachers has created a new industry for Alaska, the "tourist teacher."

**Anchorage Daily News**

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**Snapshot of this Week’s FYI Theme: Social Security**

1. The Social Security Board of Trustees just released its annual report to Congress on the long-term financial status of the Social Security Trust Funds.
2. Many Americans are aware of Social Security’s spousal and survivor benefits, but according to new research, their knowledge concerning eligibility and benefit amounts is minimal.
3. According to reports from the government and media, a new Social Security scam is targeting senior citizens this year.

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**New Social Security Annual Report: Glass Half Full, Glass Half Empty**

The Social Security Board of Trustees just released its annual report to Congress on the long-term financial status of the Social Security Trust Funds. In 2020, the total annual cost of the Old-Age and Survivors Insurance and Disability Insurance (OASI and DI) program is projected to exceed total annual income for the first time since 1982. On the other hand, the combined asset reserves of the two Trust Funds are projected to become depleted one year later than was projected just last year, effectively gaining a year of solvency for the overall system. What does this “mixed bag” of results portend for the possibility of Social Security reform?

The Board of Trustees’ report indicates while the OASI Trust Fund is projected to become depleted in 2034, the same as last year’s estimate, the DI Trust Fund is now estimated to become depleted in 2052, not 2032, which means 20 years more solvency than last year’s estimate. In fact, the overall program was actually in the black in 2018, thereby lowering the overall cost of making it solvent.

Thus, overall, the Trust Funds together are projected to become depleted a year later in 2035, not 2034, as was estimated in last year’s report, when only about 80 percent of promised benefits will be able to be funded from the trust.

So, does this paint “a dire portrait of their solvency that will saddle the United States with more debt at a time when the economy is starting to cool and taxes have just been cut,” as the *New York Times* characterizes it? Or instead, does it mean “the cost of making Social Security perfectly solvent has come down,” as Michael Hilzik, Pulitzer Prize-winning journalist with the *Los Angeles Times*, suggests?

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Hilzik notes that last year, the Trustees projected it would require an immediate increase in the payroll tax of nearly 2.8 percentage points, bringing the tax to 15.18 percent (shared by employers and employees), up from the current 12.4 percent. Now, however, this year that estimate came down to 2.7 percentage points, bringing the required payroll tax rate to 15.1 percent.

Perhaps not a dramatic decline, but also different from the claims that Social Security is on an unbroken path to insolvency, as some would charge. Hilzik agrees these are “incremental improvements,” but he argues they “underscore an important point: Social Security’s fiscal condition is dynamic.” That is, it is dependent on many fundamentally unpredictable interrelated economic and demographic factors. “Pundits who tell you they know what’s going to happen are blowing smoke,” he warns.

The report also underscores that projected costs are expected to rise more rapidly as the number of baby boomers retiring becomes greater than the number of people entering the workforce. Social Security’s annual cost, in relation to the projected gross domestic product, is also predicted to increase to about 5.9 percent by 2039, up from 4.9 percent in 2019, according to the report.

And the slightly improved outlook has not diminished the need to address overall Social Security funding. For example, the Trustees urged Congress to address the problem quickly, stressing that “[i]mplementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits.”

Indeed, if lawmakers were to make no changes until 2035, maintaining a 75-year solvency for Social Security would require a permanent 3.65 percentage-point increase to the payroll tax rate (for a total of 16.05 percent, split between worker and employer) or a 23 percent reduction to all benefits starting that year.

So, what does this mean as far as the outlook for Social Security reform is concerned?

Republicans have been quick to claim credit for the fact that things were not as bad as perhaps initially thought by claiming that GOP tax cuts have helped strengthen the economy, which has in turn stimulated employment. But they nevertheless used the report as a reminder of the “fact we have known for far too long: Medicare is going broke and Social Security is not solvent,” as Congressman Kevin Brady, (R-TX) said in a statement about the report. Indeed, for years, the conservative Republican attack on Social Security has centered on the claim that the program is on an unbroken path to insolvency.

Fiscal watchdog groups agreed, saying the new report underscored the need for change. “That fact that we now can’t guarantee full benefits to current retirees is completely unacceptable, and it should be cause enough for every policymaker to rally around solutions to restore solvency to those programs,” said Maya MacGuineas, the president of the Committee for a Responsible Federal Budget. She said the focus should be on saving Social Security and Medicare “before we start promising to expand these programs.”
But as Hilzik wrote, Congress should be “very cautious about imposing irreversible costs on Social Security beneficiaries now in the name of protecting the program from expenses later.” He argues “[t]here’s no legitimate rationale for cutting benefits today because the program might be unable to pay 100 percent of scheduled benefits in 2035; much better to wait and see.”

Democrats agree there is no need for significant changes to the programs in light of the new report. They call cuts to benefits unacceptable after the tax cuts under President George W. Bush and President Trump. Instead, they want to address Social Security’s soundness while also increasing benefits.

For example, in the House, H.R. 860, the Social Security 2100 Act, was introduced by Congressman John B. Larson (D-CT) and now has 203 cosponsors. In the Senate, the Social Security Expansion Act, S. 478, was introduced by Senator Bernie Sanders (I-VT), and has 4 cosponsors.

Both bills would remove the wage income cap ($132,900 this year) over time, with the Larson bill requiring earnings above $400,000 be subject to the payroll tax.

Both bills would also increase Social Security benefits, especially for lower-income workers, while enhancing annual cost-of-living increases—which would be tied to an inflation index better reflecting the living costs experienced by seniors than the currently used consumer price index for urban workers.

While hearings have been held on the Larson bill, and it could pass the House this year, it is highly unlikely that any reform legislation along the lines of the Democrats’ approach would get any traction in the Senate. So, for now, neither cuts nor enhancements in the Social Security benefit seem likely. But stranger things have happened, and 2020 is an election year.

Other findings in the Social Security Trustees’ Report of interest are the following:

- Social Security paid benefits of nearly $989 billion in calendar year 2018. There were about 63 million beneficiaries at the end of the calendar year.
- The projected actuarial deficit over the 75-year long-range period is 2.78 percent of taxable payroll – lower than the 2.84 percent projected in last year’s report.
- During 2018, an estimated 176 million people had earnings covered by Social Security and paid payroll taxes.
- The combined Trust Fund asset reserves earned interest at an effective annual rate of 2.9 percent in 2018.

“I think the fire is already lit,” President of advocacy group Social Security Works, Nancy Altman, said. “The House is acting, and they’re hoping to vote on legislation this year.”

- *Pensions & Investments*: “Social Security Costs Projected to Surpass Income Next Year, Report Says”
- *Los Angeles Times*: “Surprise! Social Security Has Gotten Healthier”
- *401(k) Specialist*: “Good News for Social Security Solvency”
Social Security Spousal and Survivors Benefits: How Much do People Really Know?

Many Americans are aware of Social Security’s spousal and survivor benefits, but according to new research, their knowledge concerning eligibility and benefit amounts is minimal. The results suggest that individuals who are misinformed or uninformed about benefits may not make the best plan for retirement or may fail to apply for benefits for which they are eligible.

Social Security offers two important sources of retirement income for spouses. The first is the spousal benefit, which allows a spouse to receive either Social Security retirement benefits based on his or her own earnings record, or a spousal benefit, whichever is higher. And this spousal benefit can be claimed regardless of the claimant’s own work history.

Second, widows or widowers may claim a survivor benefit, equal to the full amount of the deceased's benefit, if it is greater than the surviving spouse’s own benefit. However, the amount of the survivor benefit is affected by the deceased’s age at the time it is claimed.

Ideally, married individuals consider the impact of their Social Security choices on their spouse. However, a new study by RAND finds, people do not fully understand the rules for spousal and survivor benefits. Consequently, “they may make suboptimal choices, not only about Social Security claiming, but perhaps also about labor and marriage decisions,” the study suggests. RAND is a nonprofit global policy think tank financed by the U.S. government and private endowment, corporations, universities and private individuals.

In general, their research finds more respondents (55 percent) have heard of survivors benefits than have heard of spousal benefits (46 percent). Here are some of the RAND study’s specific findings:

**Spousal Benefits**

- Twenty-seven percent of respondents chose the correct response option that spousal benefits are available to couples married for one year or longer. A further 24 percent chose the response option that spouses must be married for 10 years in order to be eligible for spousal benefits. “While their answer about the length of marriage was wrong, these individuals did know that couples must be married (as opposed to partnered) to receive spousal benefits,” RAND researchers noted. However, 38 percent of respondents choose the “Don’t Know” option. “Those who are unaware of benefits or who expect benefits for partners [as opposed to spouses] could make suboptimal retirement planning decisions,” RAND warns.
- Approximately 27 percent of respondents said divorced individuals who were married for at least 10 years may be eligible for spousal benefits –
the correct answer. (In fact, the benefit is available even if the former spouse remarries.) However, another 19.5 percent responded that former spouses are *never eligible*, and about 39 percent of respondents said they did not know. “Individuals who are unaware of the correct eligibility could be less likely to provide Social Security with information necessary to obtain spousal benefits if divorced,” the study points out.

- When asked about how claiming spousal benefits would affect the level of benefits for the primary earner, 38 percent of respondents choose the correct response option that claiming spousal benefits will have *no effect* on the level of the primary beneficiary’s benefits. However, more than 22 percent said claiming spousal benefits will lower the benefit amount for the primary beneficiary, while another 36 said they did not know. Interestingly, almost 4 percent believed the benefits of the primary beneficiary would *increase*. RAND believes this could suggest some see the spousal benefit as an additional benefit to beneficiaries who are married, rather than a benefit available to the spouse.

- With regard to whether spousal benefits can be claimed before or after the primary beneficiary claims, more than 38 percent of respondents correctly responded the spouse *cannot claim benefits before the primary beneficiary*. However, 22 percent responded, incorrectly, the spouse *can* claim benefits before the primary beneficiary claims.

- Finally, the majority of respondents said they did not know if it is possible to claim the full amount of one’s own benefits as well as the full amount of the spousal benefits. Only one-third choose the correct response option that the amount of the benefit is the maximum of the spouse’s own benefit *or* the maximum of the spousal benefit. And it is well to note that 8 percent reported that they believe the maximum benefit is the spousal benefit *plus* their own benefit.

### Survivor Benefits
- While the largest group (43 percent) correctly responded that those married at least nine months are eligible for survivors benefits, nearly the same number (40 percent) report they don’t know.
- Forty-six percent *incorrectly* responded that an individual who remarries is no longer eligible for survivors benefits, when in fact, if a widow or widower remarries after age 60, he/she may still be eligible for survivors benefits.
- Thirty-six percent *incorrectly* responded that unmarried partners may be eligible for survivors benefits, while only 23 percent know the right answer: they cannot.
- More than 38 percent correctly identified that divorced individuals married for 10 years or more may be eligible for spousal benefits. But the majority either get it wrong or do not know.
- RAND says it is notable in all cases, “we again see a significant proportion (between 31 and 43 percent) responding ‘Don’t know’.”
- Finally, when asked if survivors benefits are *in addition to* the survivor’s own benefit or “top up” the survivor’s own benefits, 33 percent perceive the benefits to be a top up, while more than half report that they don’t know.

All in all, RAND found, on average, respondents answered only 1.65 of the questions concerning spousal benefits correctly, and only 1.60 of the questions concerning survivor benefits. As they stress, this represents a relatively low level of knowledge about both.
Why is that? Rand found that individuals who have higher financial literacy, primary earners, and those with greater self-assessed knowledge of Social Security in general have greater objective knowledge of spousal and survivors benefits. Looking at couples where both spouses responded to the RAND survey, they also did not find evidence of specialization, defined as one spouse having significantly more knowledge than the other.

Whatever the reason, the research underscores that many Americans are misinformed or uninformed about Social Security’s spousal and survivor benefits. And Americans of all ages were surveyed. While it might not be surprising that young adults would have little knowledge of program benefits intended for widows, the results have proven to be equally disappointing in a similar earlier survey of individuals who were at least 50 years old.

“I think this underscores the importance that these facts are made clear to our participants, even if their jobs are outside Social Security,” said Maureen Westgard, NCTR’s Executive Director. “Education about retirement choices is such an important part of what public plans do,” she continued. “All too often, governmental retirement systems are thought of as huge investment machines, and the importance of retirement counseling and all the other work that our benefits side of the operations provide can sometimes be overlooked,” she went on.

“From customer relations to benefit administration, NCTR is proud to represent and serve all of the components of our member systems that make public pension plans the best retirement deal that anyone can have,” Westgard concluded.

- CRR Squared Away Blog: “Know the Social Security Survivor Benefit”
- Forbes: “Social Security Considerations After Divorce”

Social Security Scams Reach Epidemic Level

According to reports from the government and media, a new Social Security scam is targeting senior citizens this year. They need to know what to listen for, as well as what the Social Security Administration would never do as far as contacting them.

The Federal Trade Commission (FTC) reports that 35,000 consumers sent more than $10 million to scammers in 2018 related just to false Social Security information. In one of the newest scams, involving technology to make the caller ID appear as if the criminals are calling from the Social Security Administration, the FTC reports more than 76,000 people have complained to them about the scam, which is already outpacing the fake IRS call scams with which many are familiar.

According to a recent article in Newsweek, the callers claim the victims have committed a criminal act and that the government has suspended their Social Security number and filed a lawsuit against them. Victims are then told to call a specific number, where they will be asked for personal information and told they must pay a fine to end the lawsuit and recover their Social Security numbers.
In another version of the scam, victims are told their Social Security number has been suspended due to “suspicious activity,” and not their own actions. They are asked to "press 1" to be connected with a Social Security representative. But instead, they are connected to a fraudulent agent, who may ask them to verify their Social Security number.

Whatever the approach, the goal is to obtain personal information from the victim, as well as obtaining payment to “reactivate” a Social Security number. Scammers have reportedly requested payments via methods ranging from wire transfers to gift cards, according to Newsweek.

A recent article in the St. George (UT) News concerning a string of such new Social Security scams across Utah makes the following important points:

- The SSA will never call and ask for your Social Security number. It will not ask you to pay anything. And it will not call to threaten your benefits.
- Your caller ID might show what appears to be the actual Social Security phone number, 1-800-772-1213, but that is part of the scam. Computers make it easy to show any number on caller ID, making it difficult to trust what you see on the screen.
- Never give your Social Security number to anyone who contacts you. Do not confirm the last 4 digits and do not give a bank account or credit card number to anybody who contacts you asking for it.
- Anyone who tells you to wire money, pay with a gift card or send cash is a scammer, no matter who they say they are.
- If you’re worried about a call from someone who claims to be from the Social Security Administration, get off the phone and call the agency directly at 800-772-1213; TTY 800-325-0778.

A recent article in The Motley Fool also points out at this time of year, tax returns, refunds, and the Internal Revenue Service are in the minds, computers, and mailboxes of many people. “Senior citizens and the rest of the population might be more likely to believe that someone from the U.S. government is actually contacting them about suspicious activity during this period than any other,” the article notes.

“Senior fraud is always of concern to our systems,” said Maureen Westgard, NCTR’s Executive Director. “I know many warn their participants of these scams and the ways to handle such calls, and I hope this latest information on these cruel schemes is helpful,” she concluded.

- Newsweek: “A Suspended Social Security Number Scam is Making Its Rounds: How to Identify and Report a Fraudulent Call”
- St. George News: “Ambush of Phony Social Security Number Calls Hits Utahns”
- The Motley Fool: “Social Security Scams Abound. Watch Out for This One.”
- CBS 17.com: “Government Says Social Security Phone Scam an Epidemic”

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