BERS WORDS

A publication of the New York City Board of Education Retirement System

Volume 23 No 1 www.nycbers.org November 2019

2020 TDA Savings Limits

The goal amounts for the 2020 TDA program have been released by the Internal Revenue Service (IRS). The basic goal amount is the lesser of 100% of compensation or $19,500. Those eligible for catch-up contributions may contribute as much as $3,000 in 2020 above the $19,500 and are limited to a lifetime total of $15,000. Members age 50 or older are eligible to contribute an additional $6,500.

The return on the fixed income fund is currently 7% for UFT members and 8.25% for all other members. The return on the variable investment fund is based on stock market fluctuations.

You may also be eligible to take advantage of a tax credit called the Saver's Tax Credit. The Saver's Tax Credit is a federal income tax credit for investing in a retirement plan, such as the BERS TDA Program. The amount of credit you are entitled to is based upon your contribution amount and credit rate. Your Adjusted Gross Income (AGI) is the basis for the credit rate, which ranges from 10% to 50% of your contribution amount.

The Saver's Tax Credit income limits have been increased for 2020 and this credit is in addition to any deduction or exclusion allowed for your contributions. Please refer to the following chart illustrating the new income limits and credit rates.

Income Limits				
Credit Rate	Married Joint Return	Head of Household	Others	Maximum Credit
50%	Up to $39,000	Up to $29,250	Up to $19,500	$1000
20%	$39,001 to $42,500	$29,251 to $31,875	$19,501 to $21,250	$400
10%	$42,501 to $65,000	$31,876 to $48,750	$21,251 to $32,500	$200

In addition to the aforementioned advantages, the TDA program provides members great flexibility in terms of the amount they can contribute to the program as well as how they wish to allocate their investments.

Participating members who wish to make changes to their TDA contributions are reminded to fill out and return the 2020 Investment Change form they will receive in the mail.

Returning to Work after Service Retirement

Under New York State law, a service retiree under age 65 who is reemployed by New York City or New York State may earn up to $30,000 per year from public employment without a suspension of their pension. However, if a service retiree under age 65 who is reemployed in public service earns more than $30,000 in one year from public employment, they would need to request a special waiver under Retirement and Social Security Law § 211, otherwise their pension would be suspended until the end of the year.

If you are a BERS service retiree under age 65, and are considering returning to work in public service, please contact BERS so that we may assist you in determining the impact on your pension benefits, and whether a waiver may be required to continue receiving your pension.

Earnings limitations do not apply to service retirees who are over age 65, or any retirees who are employed in the private sector, by another state or the federal government, or by a public benefit corporation.

We would like to hear from you. Please send comments regarding our newsletter, or any specific concern to The Editor, **BERS WORDS, Board of Education Retirement System, 65 Court Street, 16th Floor, Brooklyn, N.Y. 11201.** Or E-mail your comments to **Brespon@bers.nyc.gov**.

News from the Chief Actuary

Sherry S. Chan
New York City Chief Actuary

Dear Members,

You, and all those who serve alongside you (teachers, police, fire, general NYC municipal employees), were made a promise when you began your service to New York City. You were promised a pension. It is my honor to make sure that promise is delivered through a secure and stable pension when you retire.

I appreciate your retirement system saving me some space in this newsletter for an update on the actuarial work done in my office to care for this promise, your pension.

As the New York City Chief Actuary, I am responsible for calculating the yearly amount New York City is required to contribute to its pension funds. The calculation is based on an actuarial review of all of the City's retirements systems, reviewing things like workforce demographics and pension funding health, to determine an accurate and responsible pension contribution from the City of New York.

Here's a brief overview of the type of work we are performing for the BERS pension funds.

Currently the BERS pension fund is financially healthy at 90.5% funded. I have given the BERS Board of Trustees a preliminary calculation for the City's FY 20 contribution to your pensions. A final calculation will be prepared in the Spring of next year so the City can deliver on its FY 19-20 pension obligation.

In addition to the contribution calculations, my office recently reviewed the premium rate on loans you can take from your TDA accounts or your pension plan. As you may already know, when you borrow from either of these, your beneficiaries are protected with loan insurance. This insurance will cover any balances remaining if you pass away after 30 days from the issuance of the loan and before full loan repayment. After a thorough review, I recommended to your retirement system board to keep the same premium rates for these loans and they agreed.

Additionally, the BERS Board, based on my recommendations, adopted new Option Factors that reflect more current life expectancies. Option Factors, based upon mortality tables and an interest rate assumption, are intended to provide a retiree with the same expected value of benefits whether the retiree chooses to collect a retirement benefit only for the retiree's own lifetime or for the lifetime of the retiree and a beneficiary. The new Option Factors are effective for retirements on and after April 1, 2019 and produce, in nearly all cases, a benefit that is greater than the benefit provided under the prior set of Option Factors. In no case, however, will these new Option Factors produce a benefit that is lower because your pension benefits are constitutionally protected.

Lastly, I am so pleased the New York City Office of the Actuary has a very good working relationship with the BERS staff. We are in constant communication about the health of your pensions. Attached is a photo of a recent data collection meeting between my staff and the BERS staff that captures the spirit in which we work on your behalf every day!

Sincerely,

Sherry Chan

Sherry S. Chan
New York City Chief Actuary

Phyllis Gutterman, Actuarial Specialist, Michael Samet, First Deputy Chief Actuary, Michael Hunter, Administrative Actuary and Crage Lu, Actuarial Specialist meet with BERS staff members.

Economic and Market Comment

There are a series of factors to consider regarding the economy and market for pension fund investing. The change in the U.S. Gross Domestic Product ("GDP") is a useful measure of the growth and strength of the U.S. economy, which supports pension fund performance. Real U.S. economic growth as measured by the GDP at June 30, 2019, was at a rate of 2.0% compared to a 3.5% rate at the end of the 2019 fiscal year. While growing slower the U.S. economy has been sustained by low unemployment, low inflation, a tax cut for many businesses and consumers, moderate wage growth and increased personal consumption for both goods and services. This combination has provided a business environment that has benefitted the Fund. Interest rates and inflation are also an important measure that affect the pension Fund's performance and prospects. The U.S. Federal Reserve Bank (the "Fed") followed through its plans to raise interest rates in the first half of the FY and subsequently held interest rates steady during the second half of the FY. The increases were anticipated and positioned the Fed to continue its wind down of the quantitative easing which started after the 2008 financial crisis. The Fed, like other Central Banks, raises interest rates to help manage inflation expectations and to balance growth and unemployment in the economy and reduces rates to stimulate growth. Indeed, inflation has remained historically low, about at the Fed's target of 2.5%. In the second half of the FY, the Fed did not increase rates due to uncertainty surrounding economic growth and the effects of trade tensions between the U.S. and China and gave every indication it would reduce rates in the second half of calendar 2019.

The fund is diversified across U.S. and non-U.S. markets. In the first half of 2019, U.S. equities continued to rebound from the late 2018's downturn. Year to date through June 30, 2019, U.S. equities have posted double-digit gains. The U.S. stock market, as measured by the benchmark, Russell 3000 Index, returned 18.7% for the Fiscal Year 2019. Performance in the U.S. was fueled by optimism about the future U.S. China trade relations. In the U.S., top performing sectors were financials, materials and technology. The Fed's dovish pivot and an ensuing decline in longer interest rates drove performance in the defensive sectors, real estate and utilities.

Similarly, Non-U.S. developed equities also continued to rise after a volatile 2018. The non-U.S. equity market, as measured by the benchmark, MSCI EAFE Index, returned +1.08% for the Fiscal Year 2019. Switzerland, Australian and Germany have been top returning countries thus far in 2019. Brexit continues to loom over U.K. stocks, with lingering fears of an abrupt "no deal" exit from the European Union ("EU"). European ex-U.K. stocks also gained solidly with global trade tensions staying relatively stable and with European Central Bank President Mario Draghi hinting at further monetary easing to come. Within non-U.S. developed, cyclical sectors (technology, consumer discretionary and industrials) have performed better than defensive sectors (utilities, healthcare and consumer staples).

Emerging markets stocks had a very strong first quarter of 2019, but the returns did slowdown in the second half of the YTD period. Emerging market stocks fell sharply in May 2019 after trade talks between the U.S. and China broke down. Stocks then recovered in June after the G20 meeting, when hopes for new trade talks emerged. The emerging market asset class as measured by the benchmark, MSCI Emerging Markets Index, returned +1.21% for the Fiscal Year 2019.

As mentioned during the last Fiscal Year report on investment activity, continued caution is advised. While pension plans, including BERS, have benefitted from these periods of stronger U.S. stock and bond returns since the 2008 financial crisis, they are unlikely to continue at those levels over the long term. The BERS fund is very well diversified across all public and private equity, fixed income and real estate capital markets. Both, international developed and emerging markets returned less than U.S. and less than expected primarily due to volatility in those regions given tariff discussions, and political instability. Fixed income investments also rewarded risk taking with the high yield, below investment grade, bond index, returning +7.2%. Private Equity and Real Estate investments also had superior returns. Pension Fund investors such as the BERS Fund have long term horizons over which benefits will be paid. Therefore, BERS and its peers diversify to these investments where the invested capital is not needed over the 3 to 5-year period. Private market investments are not similarly affected by short-term interest rates and inflation and did well in FY 2019 but not as well as U.S. equities. The Real Estate benchmark returned +6.51% and a Private Equity benchmark returned +12.01%. For BERS and its peers, diversification to lower risk assets did not add the expected level of value when looking at the very short-term FY 2019.

Source: Segal Marco Advisors

New York City Board of Education Retirement System
65 Court Street, 16th Floor
Brooklyn, New York 11201
(929) 305-3800
www.nycbers.org

Cost-of-Living Adjustment (COLA) Increases for 2020

Social Security and Supplemental Security Income (SSI) benefits for nearly 69 million Americans will increase 1.6 percent in 2020.

The 1.6 percent cost-of-living adjustment (COLA) will begin with benefits payable to more than 63 million Social Security beneficiaries in January 2020. Increased payments to more than 8 million SSI beneficiaries will begin on December 31, 2019. (Note: some people receive both Social Security and SSI benefits)

What is a cost-of-living adjustment (COLA)? The purpose of the COLA is to ensure that the purchasing power of Social Security (SS) and Supplemental Security Income (SSI) benefits is not eroded by inflation. It is based on the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). If the CPI-W increases more than 0.1% year over year between the third quarter of the previous year and the third quarter of the current year, Social Security will raise your check by the same amount. If there is no increase, there can be no COLA.

Will the maximum taxable earnings amount change in 2020? Yes. Based on the increase in average wages, the maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $137,700.

Will the retirement earnings test exempt amounts change in 2020? Yes. The earnings limit for workers who are younger than "full" retirement age (age 66 for people born in 1943 through 1954) will be $18,240. ($1 is deducted from benefits for each $2 earned over $18,240.)

The earnings limit for people turning 66 in 2020 will increase to $48,600. ($1 from benefits for each $3 earned over $48,600 until the month the worker turns age 66.) There is no limit on earnings for workers who are "full" retirement age or older for the entire year.

Source: The Social Security Administration
https://www.ssa.gov/
