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WALL STREET SYMPOSIUM LUNCHEON
PRINCETON CLUB PRESENTATION

Path to Insolvency?
Public Pension Plans and the 2012 Political Implications of Reform

When Henry Weingarten asked me to speak at this symposium, I was tempted to decline the invitation, because predicting the actions of politicians can be a dangerous pastime. When we take the definition of a politician found at Dictionary.com to be a "seeker or holder of public office who is more concerned about winning favor or retaining power than about maintaining principles,"[1] and apply that to the reform of Public Pension Plans you begin to understand that this issue will be part of the debate leading up to the 2012 elections.

Today I will attempt to describe the financial predicament that is at the heart of the debate with some predictions of what may happen and what it means to us as citizens and taxpayers if meaningful reform is not enacted soon.

All the while, I am cognizant of the words of John Kenneth Galbraith who said, "The only function of economic forecasting is to make astrology look respectable."

Hopefully, today our crystal ball will be clear and we mix the best features of both to produce predictions that are useful for understanding and action.

Hardly a day goes by without some reference to the plight of people living on fixed income, mainly Social Security, many of whom live below the poverty line. This is hardly news. Media chooses to pay more attention to the feigned outrage expressed by politicians while ignoring the significance of the demographic tectonic shift and ever-growing gap between the haves and have-nots.

<u>Prediction</u>: With the coming of spring, the Occupy Wall Street crowd will be back with a more focused strategy. Appearances at the Presidential Conventions this summer are a certainty. They are already training for it. It should not surprise us if they are joined by an older AARP generation, fearful that entitlement programs will be reformed with the idea of reducing their benefits.

While my main topic today is the Political and Financial implications that Reform of Public Pension Plans will play in 2012, some discussion of Social Security's role in this process seems necessary. Social Security is nothing more than the national pension plan. In essence, workers and employers pay into a system today where recipients receive a defined benefit for life. In its simplest form, it is a deferred exchange of long-term duration.

Contrast that with a deferred exchange of short-term duration. There is a famous cartoon that portrays Popeye's friend Wimpy, hamburger in hand, asking that you lend him money today to pay for his hamburger and he will pay you back on Tuesday, we can look to a short time when the second half of the promise fulfills the bargain.

Before we take measure of the financial implications of this, we need to understand the psychological nature of the pending transaction. Wimpy has made a promise, which is only as good as your belief in his integrity and his finances. Before we would consider his request, we would want to know if he is planning on additional borrowing to buy his next hamburger.

There is a wonderful book written by the Economist, Harry Scherman, many years ago. In *The Promises Men Live By*, Scherman defines a promise as a deferred exchange.

As analysts we are always looking for a model and I can't think of anyone who has described the current debt ridden society better, despite the fact that the book was written in 1938.

Let me quote what Scherman has to say about economic promises, particularly those made by Governments.

“All in all, it seems there is a reasonable ground for suspicion of promises which governmental units, both supreme and subsidiary, make to their citizens. For if simple honesty will play no part in the completion of the promises; if there is no agent of eventual compulsion that can infallibly be relied upon; and if even the resources to complete the transactions, while theoretically ample in total, may be governed by the fitful wind of political circumstance, the degree of uncertainty about the completion of these deferred exchanges should be a high one. Yet, curiously, in the money market, they have, in the past, often been considered among the least speculative of all deferred exchanges. Why is this? The real reason can be found in what we have already pointed out: that these economic promises, unlike others, tend to be perpetual. ***Full completion is never asked for.”*** [2]

In a word -- ***A promise is of no more value than trust in the ability of the one who makes it to carry through, including a willingness to do so.***

Wimpy’s promise has a short duration. You would know quickly whether he could fulfill it. It would seem without knowing more about his character, that a high rate of interest would be needed to pay for the risk of non-completion.

In contrast, Social Security is an example of a deferred exchange with a long duration. You and I have an expectation that, whenever we retire, we will get a return on investment for the balance of our lifetimes. After all we paid in, we are entitled to completion of the bargain.

Few gave any thought to whether this promise might not be honored until the last decade when confidence in our nation’s financial capabilities has been shaken.

I can tell you from counseling clients for over forty years, older people are anxious, if not out-right scared. The younger generation is more skeptical. Both are angry with those upon whose promises they have relied.

Young and old sense that the aftermath of the debt binge created over the past thirty years is the realization that new promises can't be honored if old economic promises are unfulfilled. Somehow that doesn't stop politicians from making them.

Regardless of duration, to fulfill a promise there must be trust in the honesty and integrity of the maker, the financial ability to deliver on the promise and reliance on others to carry it out. So you might ask, "Why is it that throughout the land there is so little faith in government?" Simply put, government has placed more emphasis on expediency in the short term rather than face the issues that could produce real progress.

As a result, most formerly trusting people have become skeptics and the skeptics have become cynics. We are reminded of Ben Franklin's famous quote: "We are all born ignorant, but one must work hard to remain stupid." Politicians believe that, as long as we can keep the masses ignorant, we can defer the hard decisions until later.

The public, no longer ignorant, has observed that Federal Reserve suppression of interest rates and the transfer of newly created Fiat money to the banks have saved the banking system on the back of savers of the United States. People are not stupid. Many see this as outright theft. They see GM bondholder's rights trampled, bankers rewarded instead of jailed and fraud unpunished. They also feel that markets are manipulated and that there is less transparency in financial dealings. In the present circumstance, promises made by government appear to lack integrity, regardless of political party affiliation. So why should anyone trust new promises made by the same people?

With that as a backdrop, let's examine the financial state of Social Security. Recently, Jed Graham, in *Investor's Business Daily*, pointed out a sharp deterioration in the solvency of the Social Security Trust Fund. His graph indicates that recent projections made by the Congressional Budget Office show $1 Trillion less than the Social Security actuaries were projecting just last year.[3]

What we are concerned with here is the government's ability to afford benefits where the assets (which are special U.S. Treasuries) supposedly are sufficient to match ongoing and future liabilities. The assumption is that legally, the promised benefits can be paid until all these special treasuries are spent.

Let me share a little secret: There are some of us who believe that these supposed assets have already been spent in part, by a Congress all too willing to dip into the trust fund. The question Ron Paul and others in Congress should be asking is: "What has happened to the Social Security Trust Fund?" (Please don't expect a Congress that invades the trust fund for operating expenses to come clean with the electorate any time soon.)

When completion of the second half of any promise is in doubt, reformation is essential or like Greece, default or insolvency is inevitable. What has so far been ignored is the demographic time bomb of a huge generation retiring and living longer. CBO has moved the duration risk significantly. Within the next few weeks, they are expected to issue their report to frame this issue. In short, the amount expected to be paid out is growing faster than the new workers' ability to pay in to perpetuate the system, which at least one Republican candidate, Rick Perry, had the audacity to describe as a Ponzi scheme.

The difference between CBO estimates and that of the Social Security Administration appears to be $1,000,000,000,000. Concurrently there is a cash flow gap because Social Security now takes in less revenue than it pays out in benefits. The annual cash gap is $48 billion in 2011 and is expected to rise above $100 billion annually by the end of the decade.

While this is happening, there is also the need to address the crises in the Social Security Disability Program, which appears to CBO to be insolvent by 2016.

Thanks to Mr. Bernanke, one of the indirect consequences of the Fed's sustained zero interest rate policy will be less earnings. Because treasury rates are at historic lows, smaller interest payments are earned on the Trust Fund's balances and mathematically can't add much to make up the cash shortage.

If left untouched, by 2018, Social Security's cash flow deficits will exceed interest payments.

You may be thinking this is not today's problem and there is plenty of time to reform Social Security, but unfortunately procrastination only makes confronting this problem worse.

The reason that politicians shy away from this issue is the fear of what would happen if there were mass expositions of the truth. While the primary election focus in 2012 will be on health care reform, it seems likely that Social Security will get more than passing attention.

Prediction: My prediction is not intended to be humorous: both parties will promise that a Commission will be formed to study the problem.

Whatever the reform, it seems obvious that the retirement age will be extended, the threshold for FICA payments raised substantially, if not eliminated altogether, and benefits means tested and taxed at higher rates. This will be sold to the public at large as a necessary fix with shared sacrifice. This issue is easy to sidestep because there is enough blame to go around independent of party affiliation.

On the other hand, dealing with the issues of underfunding in the private and public pension fund arena is far more complex.

In the words of Tip O'Neill, remember, "All politics is local."[4]

I'll let you in on a dirty little secret. Defined benefit pension plans of all types only work if they earn a compound rate of return of at least 8% annually forever, if today's workers pay in nearly triple the amount from their compensation, (roughly 15% annually) and the employer contributions computed using conservative actuarial assumptions are sustainable and uninterrupted.

Allow me to share another dirty little secret. Virtually all defined benefit plans in the public sector are massively underfunded.

In every case of underfunding the following are present:

1) An intent to hide the financial imbalances by using faulty backward -looking analysis with imprecise data;

2) Liberal assumptions about asset returns while understating current and future liabilities;

3) Empty promises made by people in positions of power who knew or should have known could not be honored without intervention, that is a bail out from time to time, to correct imbalances.

Remember our definition: a promise is of no more value than trust in the ability of the one who makes it to carry through, including a willingness to do so.

When I first began to study the plight of public pension funds in early fall of 2011 at the urging of some of my clients in New Jersey who were considering retiring, I was actually surprised to find the number of scholarly studies from the likes of the American Enterprise Institute, the Mercatus Center at George Mason University, the Pew Institute, the Hall Institute, the Kellogg School at Northwestern University and the Bloustein School of Public Policy at Rutgers, just to name a few, that were sounding an alarm largely ignored by government policy makers at all levels.

You might also recall that an essential part of “The Tragedy of the Commons” authored by Meredith Whitney was devoted to the role State Pension Funds play in measuring the solvency of states. In her controversial study she compared the plight of the states and municipalities with the problems of countries in the Euro zone.

She felt, and indeed predicted, that overvalued housing and reduced property taxes in local economies were the seeds of the next financial crises.

She made one mistake that forecasters have been making for ages, "When you make a prediction, never make a prediction about timing." When the crises did not occur in 2011, it was all too easy for the politicians and the press to pooh-pooh the report as the Armageddon that never happened, earning her scorn and derision.

According to *Fortune Magazine,* Whitney claimed that the study was the "most comprehensive in-depth analysis of the states' murky patterns of spending, revenues and benefit programs ever assembled by government, foundations or another research firm.[5]

What Whitney found reminded her of the poor disclosure and arcane accounting rules that hid the fragile condition of the banks and mono-line insurers that she had unmasked.

She concluded that: "The states represent the new systemic risk to financial markets." She stated that, "I see a lack of transparency and an abundance of complacency on the part of investors and politicians, just as we saw before the banks imploded. I was shocked by what I was seeing that I couldn't stop. Any long-term strategic plan needs to take account of the dangerous, mostly overlooked problems in state finances."[6]

It was with the same calling that I began to undertake the study of the underfunded nature of state pension plans, particularly those of New Jersey, my home state, where many of our firm's clients reside.

Since our firm prides itself on conducting unbiased research and analysis, we felt that the underfunding of pension plans was far too important an issue to be ignored any longer. Sadly, after much study, I cannot assure my clients that their pensions are safe, that future benefits will not be cut, or that the plans they are in are any more meaningfully solvent in spite of recent political responses to deal with the issue in the short term. Unlike most complex problems however there are common sense solutions but only after recognition that there is a problem.

Like Meredith Whitney, what I found was shocking. I will try to condense the definition of the problem: Just try to envision a financial system that strives for equilibrium. Call that one where cash inflows go into a reservoir (assets), where the cash outflows match the inflows. Then let's imagine that the system needs cash contributions from employees who are still working and increased cash generation from predictable portfolio returns. When the cash outflows are equal to the inflows and the assets remain stable the system is in balance.

But because the system is dynamic, a number of variables enter the equation, none the least of which is time. For you see, the rate of contributions change based on the number of employees paying into the system, the amount each is paying based on a percentage of their wage compensation and the time until they expect to receive pension payments.

In a defined benefit plan there is an expectation that the employer will also help fund an amount sufficient to insure that the system remain solvent and liquid to insure future payments to all participants.

In the defined benefit space a fund is established, usually a trust, whose trustees invest for all participants, normally with the help of outside experts. A board of trustees, supposedly independent of the political process, establishes policy. Don't believe politicians don't influence it. If you think publicly traded companies have a need for better transparency and governance, you have not seen anything until you observe the behavior of policy setters in pension plans.

Please don't lose sight of the purpose of the plan design. In its simplest form, a defined benefit plan is nothing more than a promise to pay an employee a defined amount during retirement determined by formula by an employer or plan sponsor, whose motive is to pay the least into the plan to keep it solvent.

If this were a Broadway play, the title might be *Who Has Skin in the Game?*
It is clear that the answer in the public sector is everyone.

Here is the main cast of characters and the supportive cast:

Who Has Skin in the Game?

Public Sector Cast of Characters

Main Characters:

- Employees:
  - Current
  - Past/Retirees/Spouses
- Employers:
  - States/Counties/Cities
- Pension Fund Trustees
- Taxpayers/Citizens

Secondary Characters:

- Politicians
- Legislators
- Unions

Supporting Cast:

- Plan Administrators
- Accountants
- Actuaries
- Money Managers
- Investment Bankers
- Consultants
- Rating Agencies
- Scholars
- The Press
- Society At Large

Among the main characters, the contributors are the ones who directly have skin in the game.

The secondary characters are, in a sense, gatekeepers who don't write the checks, but receive indirect benefits from perpetuation of the system, often in the way of pay for favors for their constituents.

The supporting cast is made up of those who keep score or provide guidance. Often, they are chosen by the secondary characters. They are, by and large, the recipients of a portion of the contributed funds. The watchdogs are scholars, the press and the least informed, society at large.

I left out two or three other characters, who are also supposed to be part of this cast: the lawyers and the regulators. The lawyers are perpetuators and the regulators are nowhere to be found.

Only when a plan goes to insolvency, like Stockton, California or Jefferson County, Alabama, is there a call for more oversight. Before any call for reform, there should be an assessment if the plans are accomplishing the objectives for which they were designed.

Let us take note of the original purpose of having pension and retirement programs:
This very industry exists because society at large has concluded that it is humane to take care of its elders and the downtrodden. The issue of whether society can any longer afford to prolong life and extend economic benefits is at the heart of any meaningful entitlement reform. I realize how controversial and super charged this is and bound to evoke a wide range of emotional responses.

Asking pension plan participants to contribute a share of their wages earned from their current labor to provide for the well being of others no longer able to work is one thing, selling it is as fulfilling a promise of a better life for them in the future is another. Lest you think this problem is endemic to the United States, guess again.

Better than half of all employees worldwide no longer trust the government promises that their savings contributed by them will be managed in a way sufficient to support them in retirement. The demographic shift to people living longer is particularly pronounced in the developed world: Japan, Germany, the UK, Canada and the United States.

The pension industry and the government know that younger generations are being set up for disappointment. As long as contributors are willing to pay into such a system, retirees can expect to receive their pensions. What pensioners are not likely to get for sure are future payments that increase with inflation and the cost of living.

If the young perceive that paying into a system that has a high probability of default, we will have intergenerational strife. With it are societal observations that more and more parents are coming to rely on their children to provide for them in retirement, hurting that generation's capacity to save for their old age and forcing the next generation of children to support them in turn.

When we look at the pension industry, beginning signs of mistrust are evident everywhere. Paraphrasing the words of George Carlin, the famous linguist, comedian extraordinaire: the pension system is a “big club” and, as citizen-taxpayers, you are not “in it”.

When you get involved in this type of study you learn quickly that all these characters with their supporting casts create a highly charged atmosphere. Among the thorniest of issues is who sets the discount rate and how are pension plan liabilities measured and determined? Who determines the expected annual rate of return on plan assets? The decision over what to do when underfunding is determined really boils down to what constituency is affected most when promises made to teachers, firemen, policemen, judges and other public employees can’t be honored.

What becomes painfully obvious is that, in spite of recent reforms, the unfunded liabilities are growing faster than the contributed assets and the expected return on investment in the plans. The strategic gap results from assumptions about a growth in assets from increased contributions from the state and/or employees coupled with substantial significant outpaced investment returns. For decades, the pension assets could be invested in such a way that a portfolio could be concentrated in bonds of various issuers, including sovereign debt with predictable yields and equity investments representative of underlying growth of the US and global economy.

The growth in assets historically was sufficient to match or exceed the increase in actuarial liabilities. The assumption was that assets could be allocated in such a way that a low risk strategy could be pursued and sufficient predictable income coupled with normal capital appreciation would at least match gross distributions from the plan.

Fast forward to today’s yield starved environment. It seems clear that the growth rate of capital deployed would have to be accelerated to just match the annual gross distributions. It would appear that this mathematical reality is, in part, the impetus for the NJ Investment Council’s policy shift to greater reliance on annual returns from a portfolio that depends heavily on equities and alternative investments.

This policy can best be described as the pursuit of higher reward with greater risk. This pursuit is explainable only partially because of the low-interest environment. In spite of the recent major triumph in getting the legislation passed requiring most government workers to pay more toward their pension and health care insurance, as well as raising the retirement age for many from 62 to 65 and suspending the cost-of-living adjustments for those workers already collecting a pension, the amount of inflows to the plan do not appear to sufficiently match the annual gross outflows.

I have found that pension fund recipients for the most part, are largely uninformed, hence ignorant, not greedy, which is the way they have often been portrayed. They are ignorant because they have been misguided by governments at all levels, the Federal Reserve and financial advisors in general. While less informed, pension plan participants are not stupid. Innately, they know that the plans have been underfunded and that reformation is necessary.

In return for grudging acceptance, they have been promised and indeed are expecting that their pensions are assured, constitutionally mandated and court protected. Those that are better informed know that the basis for their expectations remains uncertain. To eliminate the unfunded liabilities near term is nearly mathematically impossible. Politicians know it. Legislators know it. The informed public feels it. This year’s reform appears to be just the beginning of a much-needed trend, a politically necessary first step.

Those who don’t know it are the citizens of each state where the degree of underfunding will necessitate higher taxes. In New Jersey - the 90% in the private sector likely will be called upon to pay significantly higher taxes in the future for the benefit of the roughly 770,000 members covered by the state’s pension and benefit plans, 280,000 of whom are retired.

Additionally, what part does the expectation of the need for future contributions by state and pension participants and likely taxpayers play in determining the need for a higher risk investment policy?

One can pose that question, but don't expect an answer. I am not even sure that New Jersey has conducted studies that give confidence in the assumption that an 8.25% compound annual investment return is achievable for the foreseeable future.

Nor am I sure what actions would be considered if the investment returns do not match or exceed the 8.25% expectation. Will the state make up the difference out of tax receipts from the annual budget? If the answer is "yes, the state, hence the taxpayers, will come to the rescue." Is there any intention to share this belief with the citizenry?

To quote from the working paper "The Crisis in Public Sector Pension Plans: A Blueprint for Reform in New Jersey" co-authored by Eileen Norcross and Andrew Biggs, "The ability of governments to pay for the retirement benefits promised to the public sector workers runs up against the reality of limited resources."[7]

In New Jersey's case, it appears that, in spite of recent reforms, New Jersey has, for now, sidestepped the issue. Using 2008 data, the state reported that the pension system was underfunded by $44.7 billion when the liabilities are discounted at the 8.25% annualized rate that New Jersey predicts it can achieve on the investment portfolio.[8] However, since the enactment of quantitative easing measures by the Federal Reserve including the more recent adoption of a zero interest rate policy until at least mid 2014, the amount of underfunding, using the 2.5% current yield on 15 year Treasury obligations, rises to over $200 billion, roughly 500% of New Jersey's total debt and over 35% of the Gross State Product. At that rate, the plans could run out of assets by 2019. If the returns are less than 8%, the plans will be insolvent sooner. If, as has been the case in 2011, the net assets of the pension fund decline, the day of reckoning will be sooner yet. (According to Joshua Rauh as reported in the National Bureau of Economic Research, the actuaries estimate that under certain assumptions before reform, the plans could be insolvent as early as next year.)

To what degree has the massive underfunding arrived at utilizing conventional generally acceptable accounting principles instead of government accounting, known as GASB, influenced the Investment managers to enact a policy of taking on more risk by allocating over 30% of the assets to equities and 38% to alternate investments including hedge funds and private equity?

You need not go any farther than New York City and State recently to believe that this is a hot political issue for 2012.

Governor Cuomo, Mayor Bloomberg and other politicians marched up to Albany faced with a near term economic calamity. Cities and Counties were borrowing funds from the Pension Plans to fund operating budgets. Essential services were threatened with deep cuts and curtailments. The trustees and legislators were faced with a dilemma. Coming down the tracks real soon are changes in accounting standards that spell disaster: they need to get ahead of these changes.

In October 2011, Andrew Biggs, of the American Enterprise Institute appearing before the Government Accounting Standards Board (GASB), made a compelling case for not discounting benefit plan liabilities using the expected return on plan assets. Current accounting rules allow plan sponsors great leeway and discretion in choosing the discount rates without reflecting the characteristics of the assets.

The Center for Retirement Research at Boston College has weighed in on the issue before the GASB proposals become standards and have measured the impact that changes in accounting of funded ratios will have if market value of assets is compared to actuarial funded ratios. The Center studied 126 plans across the country. The following table is an excerpt from their appendix that lists the funded ratios for state and local plans under GASB Guidelines, 2010. Our excerpt shows New Jersey's three major plans using the blended rate assumptions implicit in the proposed draft of the revised GASB Rules.[9]

Plan name	Funded ratio			Run-out date	Blended rate
	Current	Current liabilities w/ market assets	Blended rate liabilities w/ market assets		
New Jersey PERS	62.0 %	52.5 %	30.3 %	2027	4.5 %
New Jersey Police & Fire	69.0	58.3	34.1	2031	4.8
New Jersey Teachers	57.6	44.9	25.5	2021	4.2
New Mexico PERF	78.5	64.2	36.5	2032	4.7
New Mexico Teachers	65.7	57.4	40.5	2036	5.6
New York City ERS	76.2*	64.4	45.4	2034	5.4
New York City Teachers	64.9*	54.1	38.8	2023	4.7
New York State Teachers	100.3**	87.0	80.9	2055	7.4

New Jersey believes that its police and fire current funded ratio is 69 %.

Using market values to measure current liabilities with market value of assets, the funded ratio drops to 58.3 %

Using a blended rate of liabilities to market value of assets, the ratio would decline to 34.1 %.

If the blended rate proposals are adopted, the focus will be on the plan sponsor to determine how and when they expect to put the plan on sound footing. The accounting debate should prompt calls for dramatic change.

Writing recently in *Governings* magazine, Girard Miller meets the issue head-on. His words are quite foreboding but in my mind right on:

> "One thing is for sure: pension trustees and their paid professionals will find themselves explaining and defending their plans' funding policies if they use assumptions that differ markedly from final accounting standards. Those who adopt reasonable strategies to make the concepts of intergenerational equity embodied in GASB's forthcoming standards will do so at their own peril. Current plan participants, and certainly the retirees, would have a strong case that trustees who short sheet the contributions reportable under accounting standards (for the sake of budgetary convenience) will have failed to discharge their fiduciary responsibilities. And younger citizens, as a class of

prospective taxpayers may have a cause to take to the courts or the ballot box to assert their rights if the trustees impose increasing cost burdens on them by virtue of lazy amortization schedules, over-aggressive asset allocations and unrealistic investment projections. These could become key issues in fiduciary law and pension politics in the near future.

We're still at least some months away from GASB's pronouncement, which will likely come around the time of the election, unless delayed by the politicians so as not to interfere with vote-getting. But as we can see,, the challenges facing plan trustees and public managers will be more manageable if everybody is prepared for those conversations and the professionals weigh in a timely way with much needed guidance. Otherwise, the funding-policy anarchy scenario becomes more likely. That would be the worst of all worlds." [10]

Predictions: The politicians and policy makers will seek every opportunity during the annual budget cycle and prior to the November elections to deny the reality that the defined benefit retirement systems are broken. They will attempt to repair and reform instead of entertaining the idea of designing a new plan along the lines of a defined contribution plan.

No politician can take the risk that leadership in this area would produce unless and until the 90 % of the citizen taxpayer population demands that public employees accept massive changes.

Among the proposals to repair the system will be efforts to extend the age of retirees, increase employee contributions (by as much as 150 %, but only for new employees after a certain date), floating pension obligation bonds and capping the amount employees can get from the plan when they retire.

Pension fund trustees will seek investments in riskier assets with more frequent trading and higher costs of operations, all in the belief that if they fail, the public employer, hence the taxpayer, will make up for their failures. If there is any good news from this prediction, it is this: equity asset values should rise substantially in the intermediate term as assets normally allocated to fixed income are directed to dividend paying alternatives.

Asset managers will be compelled to invest without great regard for traditional valuations, creating a stock market bubble.

Inflationary expectations are built into most everyone's psyche while a period of stagflation characterizes the real economy. Almost everyone continues an attempt at deleveraging, but rising costs reduce the level of living of most retirees.

Finally, we will get through this election cycle, but look out below in 2013.

Thank you for paying attention to this presentation.

(Because the talk went overtime, a question and answer period was deferred to later in the afternoon.) Anyone reading this should feel free to discuss the topic by email to fabella@investmentpartners.com

Any information contained in this presentation should not be considered a complete analysis of every material fact with respect to matters discussed. Although the information contained herein has been obtained from sources believed to be reliable, its accuracy and completeness cannot be guaranteed.

Endnotes

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